

***United States Court of Appeals
for the Second Circuit***



EXHIBITS

77-1140

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

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PR
S

UNITED STATES OF AMERICA,
Appellee,

v.

DAVID STIRLING, JR., WILLIAM G.
STIRLING, HAROLD M. YANOWITCH,
EDWIN SCHULZ and RUBEL L. PHILLIPS,

Defendants-Appellants.

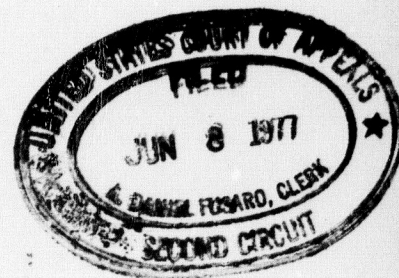


EXHIBIT VOLUME OF DEFENDANTS-APPELLANTS
DAVID STIRLING, JR., WILLIAM G. STIRLING AND HAROLD M. YANOWITCH
Volume II - Pages E 275 to E 524

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C.
20549

0-5250-2
42936
Orig

FORM 10-K

REC-5, E.C.

COB 27 1971

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended July 31, 1971

Commission File No. 2-34949

STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in its charter)

Incorporated in Delaware

IRS. Employer Identification
No. 16-0954559

1150 EAST RIVER ROAD
AVON, NEW YORK 14414

(Address of principal executive offices)

Registrant's telephone number, including area code (716) 926-2481

Securities registered pursuant to Section 12 (b) of the Act:

None

Securities registered pursuant to Section 12 (g) of the Act:

Common Stock, par value \$.01 per share

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Item 1. Business.

The registrant is engaged in the assembly-line manufacture and sale of modular housing units. The registrant manufactures modules for two story, attached, wood frame townhouses and apartments and has developed concrete and steel frame modules for medium and high-rise structures. A substantial portion of the registrant's sales through July 31, 1971 were to local housing authorities and sponsors of federally assisted housing projects. Generally, upon receipt of a commitment from a customer, the registrant purchases the land, prepares the site, lays the foundations, arranges utility connections, manufactures, installs and connects the modules, and landscapes the housing site, thereby providing a total service to the customer by delivering "turnkey" housing. Where appropriate, the registrant engages local contractors to install the modules and perform the required site work. Modules are equipped in the manufacturing process with plumbing and heating fixtures, electrical wiring, appliances, and floor and wall coverings.

The registrant must compete with conventional builders, many of whom possess much greater resources than it. In addition, conventional construction methods have a greater acceptance with many developers and housing authorities. The registrant believes, however, that its manufactured housing is competitive in price and quality with conventionally constructed housing. There are other companies, some of which possess much greater resources than the registrant, that may be using an assembly-line manufacturing technique similar to that used by the registrant, or which are actively engaged in research into such technique.

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The registrant's backlog consists of a variety of projects, ranging from projects in the early stages of development to projects which have been partially completed, and is represented by contracts, orders, letters of designation or letters of intent. As of July 31, 1970, the registrant's backlog was approximately \$52,000,000. As of July 31, 1971, the registrant's backlog was approximately \$183,000,000 which included a \$100,000,000 order from a non-profit sponsor. It is not possible to accurately predict how much of the backlog will not be filled by July 31, 1972. The \$100,000,000 order is subject to the completion of the plant in Mississippi (see Item 3), and the obtaining of necessary federal funding which as of July 31, 1971 was not assured. It is contemplated that this order, which represents approximately 5,000 dwelling units, will be filled over a maximum 7-year period; in all instances, it will be necessary to obtain appropriate sites and various local approvals.

Of the remaining \$83,000,000 of backlog, approximately \$30,000,000 represents work to be completed under contracts in process, and \$53,000,000 is subject to the fulfillment of one or more conditions, such as the commitment of federal funds, the finalization of contracts and the acquisition of appropriate sites. Although the registrant believes that these conditions will be satisfied, it can give no assurances in this regard.

The registrant uses conventional building materials. Many components, such as fixtures, appliances and hardware, are purchased ready for installation from independent suppliers. The registrant does not have long term purchase

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contracts with its suppliers; however it believes its raw materials and components are readily available from alternative sources.

The registrant has been granted a U. S. patent and has foreign applications pending with respect to its assembly-line method of manufacturing modules. Several patent applications are pending with respect to the registrant's concrete and steel frame module and its system for erecting a high-rise building, and the Patent Office has notified the registrant that two applications have been allowed. However, the registrant believes that its competitive position has been dependent upon its own research activities, management skills and production capabilities, rather than upon patent protection.

The registrant and its subsidiaries have about 25 professional employees engaged part-time in research activities, and \$648,626 was spent on such activities in the year ended July 31, 1971. The registrant and its subsidiaries employed about 1000 persons as of July 31, 1971.

For the year ended July 31, 1971, no customer accounted for more than 18% of sales. One customer was the assignor of a single contract which would have accounted for about 23% of sales for the year ended July 31, 1971, if it had not been assigned in part. Because of the nature of the registrant's business, the identity of customers is likely to differ from year to year. The registrant believes that the percentage of sales represented by any single customer in a particular year is not necessarily indicative of the importance of such customer to the on-going business of the registrant.

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Item 2. Summary of Operations.

See Consolidated Financial Statements, below.

Item 3. Properties.

The registrant's principal office and factory are located on 57 acres of land owned by it in Avon, New York. They consist of a brick and steel office building and an adjoining concrete block factory having an aggregate area of about 140,000 square feet. The original plant was erected in 1967, and a 75,000 square foot addition was completed in early 1971.

In 1969, the registrant purchased a one story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon near its main location. Part of this building is used to manufacture components for the housing modules, a part contains classrooms for training employees and the balance is used by the registrant's architectural, engineering and personnel departments.

During 1970 the registrant constructed a four story prototype concrete and steel modular high-rise building near its Avon plant, and an observation center, containing the electronic controls for the hydraulic jacks, from which the high-rise system may be viewed and studied.

Construction of a manufacturing plant in Gulfport, Mississippi, capable of producing 100 finished modules per day upon completion, was commenced in September 1971. It is anticipated that the facility will be 350,000 square feet in area and, when fully operational, will employ approximately 2,000 persons.

On March 17, 1971 the registrant leased 100 acres on which the facility is to be located under a 30-year lease providing for a rental of \$36,325 per

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annum, with 60 one-year renewal options at an annual rental of \$25,000. The lease gives the registrant an option to purchase the land and the facility at the end of the initial term and each renewal term for \$100. Construction is expected to be financed with the proceeds of an Industrial Development Bond offering, the principal amount of which, together with interest, must be repaid by the registrant.

Item 4. Parents and Subsidiaries.

(a) Parents

As of August 31, 1971 David Stirling, Jr., William G. Stirling and their families owned 1,909,452 (21.6%), and 1,919,548 (21.7%) respectively, of the registrant's Common Stock; David Stirling, Sr. owned 428,800 (4.8%) shares of Common Stock. Each of such persons is a director and officer of the registrant. The registrant disclaims the existence of control of it by such persons and the foregoing reference to them shall not be deemed an admission of the existence of such control.

(b) Subsidiaries

	Percentage of Voting Securities Owned	Jurisdiction of Incorporation
Kabeth Properties, Inc.	100%	New York
U. S. Shelter Corporation	100%	Delaware
Clay Development Corporation	100%	Delaware
Aquarius Development Corporation	100%	Delaware
Twin Bridges Development Corporation	100%	Delaware

All subsidiaries except for U. S. Shelter Corporation are included in the consolidated financial statements of the registrant. For information with respect to U. S. Shelter Corporation, see Note 1 of Notes to Consolidated Financial Statements. The registrant has other subsidiaries which considered in the aggregate as a single subsidiary do not constitute a significant subsidiary.

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Item 5. Pending Legal Proceedings.

Reference is made to Note 11 of Notes to the Consolidated Financial Statements.

Item 6. Increases and Decreases in Outstanding Equity Securities.

(a) Common Stock, par value \$.01 per share

Outstanding at July 31, 1970 8,897,400 shares

Increases:

August 1970 - July 1971	Issued upon the exercise of employees' stock options	11,800 shares (1)
-------------------------	--	-------------------

Decreases:

March 1971	Repurchased by the registrant	60,000 shares (2)
------------	-------------------------------	-------------------

Outstanding at July 31, 1971, 8,849,200 shares excluding 60,000 Treasury Shares.

Item 7. Approximate Number of Equity Security Holders.

Common Stock, par value \$.01 per share as of October 4, 1971: 4,481 stockholders of record.

(1) The shares of Common Stock were not registered under the Securities Act of 1933 because they were issued in exempt transactions under Section 4(2) of the Act, the issuances thereof constituting transactions by the issuer not involving any public offering. The purchasers have represented that they were acquiring the shares of Common Stock for investment, and the certificates have been legended. The transfer agent will not transfer legended certificates.

(2) Treasury shares.

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Item 8. Executive Officers of the Registrant. (1)

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<u>Name</u>	<u>Title</u>	<u>Age</u>
David Stirling, Jr. (2)	Chairman of the Board of Directors and Chief Executive Officer	38
William G. Stirling (2)	President, Chief Operating Officer	33
Harold M. Yanowitch	Executive Vice President, General Counsel	52
E. A. Bartz	Vice President and Secretary	53
Frank Csapo	Vice President-Manufacturing	34
Reuben K. Davis	Vice President and Assistant Secretary	51
Newman J. Evans	Vice President-Marketing	42
Gary L. Hammons	Vice President-Real Estate and Installation Division	41
Herman D. Hillman	Vice President	60
Victor G. Pappas	Vice President-Personnel	42
Arthur E. Rosfeld	Vice President-Program Planning	40
Thomas Santa Lucia	Vice President	40
Edwin J. Schulz	Vice President and Controller	37
David Stirling, Sr. (2)	Vice President	61
Carl L. Wren	Vice President-Market Research	38
Paul M. Kuveke, Jr.	Treasurer	36

(1) As of July 31, 1971

(2) David Stirling, Jr. and William G. Stirling are the sons of David Stirling, Sr.

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Item 9. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director. The Restated Certificate of Incorporation of the registrant provides for indemnification of its officers and directors as authorized by such action.

Item 10. Financial Statements and Exhibits Filed.(a) Financial Statements

Reference is made to the accompanying Index to Financial Statements and Schedules.

(b) Exhibits - Calculation of Common Shares Outstanding(c) Basic Documents

1. Restated Certificate of Incorporation (Filed as Exhibit 3a to Registration No. 2-34949 and incorporated herein by reference).
2. Certificate filed pursuant to Section 151 of the General Corporation Law of Delaware (Filed as Exhibit 3c to Registration No. 2-40122 and incorporated herein by reference).
3. By-laws as amended (Filed as Exhibit 3b to Registration No. 2-40122 and incorporated herein by reference).
4. Specimen Common Stock Certificate (Filed as Exhibit 4 to Registration No. 2-40122 and incorporated herein by reference).

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RND-S.E.C.

STIRLING HOMEX CORPORATION

OCT 27 1971

Dated: October 26, 1971

By


Executive Vice President

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Index to Financial Statements and Schedules

Financial Statements:

Accountants' Reports

Consolidated Balance Sheets as of July 31, 1971 and July 31, 1970.
Consolidated Statements of Income for the three years ended July 31, 1971.
Consolidated Statements of Additional Paid-in Capital and Retained
Earnings for the three years ended July 31, 1971.
Consolidated Statements of Changes in Financial Position for the two years
ended July 31, 1971.
Notes to Consolidated Financial Statements.

Schedules:

- II Amounts Due from Directors, Officers and Principal Holders of
Equity Securities other than Affiliates.
- V Property, Plant and Equipment.
- VI Reserves for Depreciation and Amortization of Property, Plant and
Equipment.
- VII Intangible Assets.
- IX Bonds, Mortgages and Similar Debt.
- XIII Capital Shares

All other schedules and certain columns in the schedules listed above are
omitted as the required information is inapplicable or the information is
presented in the financial statements or related notes.

The financial statements of the registrant are omitted as it is primarily an
operating company and all subsidiaries included in the consolidated financial
statements are totally held.

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PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

400 MIDTOWN TOWER

ROCHESTER, NEW YORK 14604

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The Board of Directors
Stirling Homex Corporation:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of July 31, 1971 and the related statements of income, additional paid-in capital and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Stirling Homex Corporation and consolidated subsidiaries at July 31, 1971, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In connection with our examination of the aforementioned financial statements we also examined the supporting schedules listed in the accompanying index as of and for the year ended July 31, 1971. In our opinion, such schedules present fairly the information set forth therein.

Peat, Marwick, Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO.

Rochester, New York
September 15, 1971

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ACCOUNTANTS' REPORT

The Board of Directors
Stirling Homex Corporation:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of July 31, 1970 and the related statements of income, additional paid-in capital and retained earnings for the two years then ended and the statement of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the financial position of Stirling Homex Corporation and consolidated subsidiaries at July 31, 1970, and the results of their operations for the two years then ended, and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

In connection with our examination of the aforementioned financial statements we also examined the supporting schedules listed in the accompanying index as of and for the year ended July 31, 1970. In our opinion, such schedules present fairly the information set forth therein.

James R. Harris
HARRIS, KERR, FORSTER & COMPANY

New York, New York
September 20, 1970

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Balance Sheets

July 31, 1971 and July 31, 1970

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<u>Assets</u>	<u>1971</u>	<u>1970</u>
Current assets:		
Cash (note 11)	\$ 3,196,457	2,778,077
Preferred stock proceeds receivable (note 2)	19,000,000	-
Receivables (notes 1 and 3) (Schedule II)	37,845,572	15,486,119
Inventories (note 5):		
Raw materials, work in process and salable merchandise at lower of cost (first-in, first-out) or replacement market	2,614,200	2,167,603
Land held for development or sale, at cost	1,878,343	1,583,621
Prepaid expenses and other current assets	226,530	124,765
Total current assets	<u>64,761,102</u>	<u>22,140,185</u>
Investment in unconsolidated subsidiary (note 1)	1,134,579	-
Long-term receivables (note 4)	4,225,349	541,124
Property, plant and equipment at cost, less accumulated depreciation and amortization:		
1971 - \$733,705; 1970 - \$230,921 (notes 6 and 8) (Schedules V and VI)	9,426,941	5,245,745
Deferred charges, less accumulated amortization:		
1971 - \$586,011; 1970 - \$153,894 (note 7) (Schedule VII)	2,558,792	944,109
	<u>\$ 82,106,763</u>	<u>28,871,163</u>

See accompanying notes to consolidated financial statements.

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<u>Liabilities and Stockholders' Equity</u>	<u>1971</u>	<u>1970</u>
Current liabilities:		
Current portion of long-term debt (note 8)	\$ 295,630	333,036
Notes payable to banks-unsecured (1971 - 6 to 6½%; 1970 - 8 to 8½%) (note 11)	37,700,000	11,700,000
Accounts payable - trade	3,841,032	2,120,834
- other	184,222	334,169
Due to unconsolidated subsidiary (note 1)	76,894	-
Accrued expenses:		
Salaries and wages	197,295	87,532
Interest	285,763	113,127
Other	94,319	57,991
Current and deferred income taxes (note 9)	3,528,125	1,387,338
Total current liabilities	46,203,280	16,134,027
Long-term debt (note 8) (Schedule IX)	236,588	496,489
Deferred income taxes (note 9)	2,098,767	587,265
Option deposit on land contract (note 5)	235,000	-
Stockholders' equity (Schedule XIII):		
\$2.40 cumulative convertible preferred stock (note 2):		
Authorized 500,000 shares, \$1.00 par value;		
shares subscribed:		
1971 - 500,000 (aggregate involuntary liquidation value - \$20,000,000);	500,000	-
1970 - none		
Common stock (notes 2 and 10):		
Authorized 15,000,000 shares, \$.01 par value;		
shares issued: 1971 - 8,909,200; 1970 - 8,897,400	89,092	88,974
Additional paid-in capital (note 2)	26,554,453	8,446,738
Retained earnings	6,370,333	3,117,670
	33,513,878	11,653,382
Less treasury stock at cost (60,000 common shares)	180,750	-
Total stockholders' equity	33,333,128	11,653,382
Commitments and contingencies (note 11)		
	\$ 82,106,763	28,871,163

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Income

For the three years ended July 31, 1971

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	1969	1970	1971
Revenues:			
Sales-trade (note 3):			
Manufacturing division	\$ 2,961,181	16,492,770	29,482,271
Installation division	537,532	5,601,357	7,230,878
Sales to affiliates (notes 3 and 14):			
Manufacturing division	2,445,022	-	-
Installation division	3,695,316	459,941	-
Equity in undistributed net income of finance subsidiary (note 1)	-	-	134,579
Total revenues	<u>9,639,051</u>	<u>22,554,068</u>	<u>36,847,728</u>
Costs and expenses:			
Cost of sales (note 3):			
Manufacturing division	2,992,682	9,919,327	17,729,078
Installation division	3,897,213	5,240,388	6,601,413
Administrative and selling expenses	701,157	2,390,604	4,048,113
Interest-long term debt	48,420	9,165	22,968
-other	26,342	639,016	1,815,493
Total costs and expenses	<u>7,665,814</u>	<u>18,198,500</u>	<u>30,217,065</u>
	<u>1,973,237</u>	<u>4,355,568</u>	<u>6,630,663</u>
Other income:			
Gain on sale of land (notes 4 and 5)	425,956	-	-
Income before Federal and state income taxes	<u>2,399,193</u>	<u>4,355,568</u>	<u>6,630,663</u>
Income taxes (note 9):			
Federal - current	730,554	1,757,513	308,000
- deferred	422,343	317,386	2,607,000
State - current	112,658	208,469	60,000
- deferred	51,157	37,011	403,000
	<u>1,316,712</u>	<u>2,320,379</u>	<u>3,378,000</u>
Net income	<u>\$ 1,082,481</u>	<u>2,035,189</u>	<u>3,252,663</u>
Average common shares outstanding (note 12)	<u>8,025,432</u>	<u>8,649,483</u>	<u>8,881,938</u>
Earnings per common share (July 31, 1969 includes \$.02 per share from sales of land) (note 12)	<u>\$.13</u>	<u>\$.24</u>	<u>\$.37</u>

See accompanying notes to consolidated financial statements.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIESConsolidated Statements of Additional Paid-In Capital
and Retained Earnings

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For the three years ended July 31, 1971

Additional Paid-in Capital

	<u>1969</u>	<u>1970</u>	<u>1971</u>
Balance at beginning of period	\$ -	1,949,813	8,446,738
Excess of proceeds over par value of 400,000 shares of common stock issued in public offering (less expenses of \$118,285)	-	5,981,715	-
Excess of proceeds over par value of shares of common stock issued in private sales (less applicable expenses) (1970 - 129,000 shares; 1969 - 1,968,400 shares)	1,910,949	515,210	-
Excess of proceeds over par value of 500,000 shares of preferred stock issued in public offering (less expenses of \$429,367) (note 2)	-	-	18,070,633
Excess of proceeds over par value of 11,800 common shares issued under stock options (note 10)	-	-	37,082
Stock issued at par for cash patents, copy rights and processes (the last three carried at \$1) 1969 - 2,400,000 shares	-	-	-
Excess of book value of assets acquired over par value of 4,000,000 shares of common stock issued (note 1)	101,627	-	-
To increase par value of common stock outstanding as a result of four-for-one stock split	(62,763)	-	-
Balance at end of period	\$ <u>1,949,813</u>	<u>8,446,738</u>	<u>26,554,453</u>

Retained Earnings

Balance at beginning of period	-	1,082,481	3,117,670
Net income	<u>1,082,481</u>	<u>2,035,189</u>	<u>3,252,663</u>
Balance at end of period	\$ <u>1,082,481</u>	<u>3,117,670</u>	<u>6,370,333</u>

See accompanying notes to consolidated financial statements.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

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For the two years ended July 31, 1971

	1971	1970
Source of working capital:		
Net income	\$ 3,252,663	2,035,189
Expenses not requiring outlay of working capital:		
Depreciation and amortization	529,116	220,227
Amortization of deferred charges	432,117	133,288
Deferred income taxes (noncurrent)	1,511,502	184,776
Undistributed net income of finance subsidiary	(134,579)	-
Working capital provided from operations	5,590,819	2,573,480
Net proceeds from sales of stock:		
Public offering of common stock	-	3,985,715
Private sale of common stock	-	516,500
Common stock issued under qualified stock option plan	37,200	-
Public offering of preferred stock	18,570,633	-
Long-term borrowings	51,402	124,677
Decrease in long-term receivables	10,000	43,421
Option deposit received on land contract	235,000	-
Total source of working capital	24,495,054	9,243,793
Application of working capital:		
Purchase of treasury stock	180,750	-
Additions to property, plant and equipment	4,710,312	4,422,506
Additions to deferred charges	2,046,800	735,083
Reduction in long-term debt	311,303	3,052,140
Increase in noncurrent portion of long-term receivables	3,694,225	-
Investment in unconsolidated subsidiary	1,000,000	-
Total application of working capital	11,943,390	8,209,739
Increase in working capital	\$ 12,551,664	1,034,054

See accompanying notes to consolidated financial statements.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Consolidated Statements of Changes in Financial Position, Continued

Changes in Working Capital

	<u>1971</u>	<u>1970</u>
Increase in current assets:		
Cash	\$ 418,380	1,357,917
Preferred stock proceeds receivable	19,000,000	-
Receivables	22,359,453	12,286,631
Inventories	741,319	1,236,215
Prepaid expenses and other current assets	101,765	34,973
	<u>42,620,917</u>	<u>14,915,736</u>
Increase in current liabilities:		
Current portion of long-term debt and notes payable to banks	25,962,594	10,721,700
Accounts payable and accrued expenses	1,888,978	2,155,635
Due to unconsolidated subsidiary	76,894	-
Current and deferred income taxes	2,140,787	1,004,347
	<u>30,069,253</u>	<u>13,881,682</u>
Increase in working capital	<u>\$ 12,551,664</u>	<u>1,034,054</u>

During the year ended July 31, 1971, the Company assigned \$4,650,000 of its accounts receivable, without recourse, to an unconsolidated subsidiary for which that subsidiary paid \$4,650,000 to the Company. See note 1.

See accompanying notes to consolidated financial statements.

Government's Exhibit 17

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements

(1) Principles of Consolidation

The Company was incorporated on July 22, 1968 and commenced operations on August 1, 1968. In connection with its organization, the Company issued 4,000,000 shares of its common stock for the outstanding stock of certain predecessor companies. This transaction has been treated as a purchase and the results of operations of these companies have been included in the consolidated statement of income from the date of acquisition. The value ascribed to the stock issued was equal to the tangible net assets of these companies.

The consolidated financial statements include the accounts of the Company and its subsidiaries except for U. S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated.

The following are condensed financial statements of the unconsolidated financing subsidiary:

Balance Sheet

July 31, 1971

Assets

Cash	\$ 5,171
Accounts receivable - unbilled (note a)	4,950,000
Other assets	24,593
Due from parent company	76,894
	<u>\$ 5,056,658</u>

Liabilities and Stockholder's Equity

Notes payable - bank (7%) (note b)	3,750,000
Payables, accruals and other liabilities	173,079
Stockholder's equity	<u>1,134,579</u>
	<u>\$ 5,056,658</u>

Statement of Income

From date of incorporation
(September 25, 1970) to July 31, 1971

Finance income	544,946
General and administrative expenses (including interest expense of \$54,917)	<u>263,367</u>
	281,579
Federal and state income taxes - current	<u>147,000</u>
Net income	<u>\$ 134,579</u>

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

Notes:

- (a) Accounts receivable includes \$4,650,000 relating to accounts assigned to U. S. Shelter by the Company for which U. S. Shelter remitted cash.
- (b) The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds are being used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

(2) Preferred Stock Offering

On July 29, 1971, the Company, through its underwriters, offered 500,000 shares of \$2.40 cumulative convertible preferred stock to the public at \$40 per share. Net proceeds of \$19,000,000, after deducting an underwriting discount, were received by the Company on August 5, 1971. Additional paid-in capital has been credited with the net proceeds received less the par value of the stock issued (\$500,000) and expenses related to the offering (\$429,367).

The preferred stock is nonvoting except for certain defined events which would significantly affect the preferred stockholders' equity interests. The preferred shares are convertible into 1,379,310 common shares subject to adjustment in certain events, including stock split-ups and stock dividends. At its option, the Company, may redeem the preferred stock at an initial price of \$50 per share as of August 1, 1971, ranging downward annually to \$40 per share as of August 1, 1981 and thereafter.

(3) Receivables

The Company enters into various modular housing sales contracts which contain an allocation of the sales price between modules (based upon published price lists) and installation work. Sales of modules (Manufacturing Division) are recognized when units are manufactured and assigned to specific contracts. Installation work (Installation Division) is recorded on the percentage of completion method. The contracts generally provide for payment upon completion and receipt of all approvals necessary for occupancy, or for payment upon completion of each respective phase. "Unbilled" receivables represent recorded sales on contracts in process for which billings will be rendered in the future in accordance with the contracts.

Receivables consist of:

	July 31, 1971	July 31, 1970
Contract receivables:		
Billed	\$ 10,382,626	10,559,145
Unbilled	24,633,799	4,626,370
Total	35,016,425	15,185,515
Income tax refund receivable (note 9)	2,498,672	-
Current portion of long-term receivables (note 4)	12,500	17,500
Other receivables	317,975	283,104
	<u>\$ 37,845,572</u>	<u>15,486,119</u>

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

Substantially all sales are to local housing authorities and sponsors who qualify for financial assistance from Federal agencies of the U. S. Government or who have made arrangements for long-term financing. In light of this, no provision for doubtful accounts is considered necessary.

See the condensed financial statements of U. S. Shelter Corporation in note 1 for information with respect to receivables assigned by the Company to U. S. Shelter Corporation.

(4) Long-Term Receivables

Long-term receivables consist of:

	<u>July 31, 1971</u>	<u>July 31, 1970</u>
Mortgages receivable:		
Mortgage due June 1, 1974 - payments of \$2,500 due quarterly with interest at the prime commercial rate in effect on the interest payment date	\$ 241,624	256,624
Mortgage due June 30, 1975 - payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date	<u>302,000</u>	<u>302,000</u>
	543,624	558,624
Less installments due within one year (note 3)	<u>12,500</u>	<u>17,500</u>
	531,124	541,124
Long-term portion of contract receivables - unbilled	<u>3,694,225</u>	<u>-</u>
	<u>\$ 4,225,349</u>	<u>541,124</u>

During the year ended July 31, 1969, a subsidiary of the Company sold two parcels of land for a profit before income taxes of \$425,956. The sales accounted for approximately 18% of the Company's net income for the year. Payment of the purchase price is secured by the mortgages enumerated in the table above.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

(5) Inventories

Inventories of the Company consist of the following:

	July 31, 1971	July 31, 1970	July 31, 1969
Raw materials	\$ 1,439,960	963,664	471,427
Work in process	1,001,632	139,531	12,000
Salable merchandise	<u>172,608</u>	<u>1,064,408</u>	<u>653,872</u>
	<u>\$ 2,614,200</u>	<u>2,167,603</u>	<u>1,137,299</u>

Land held for development or sale is recorded at cost plus real estate taxes, mortgage interest and other related carrying costs. The land was acquired by the Company as a part of the transaction described in paragraph one of note 1.

During the year ended July 31, 1971, the Company entered into a contract to sell a parcel of the land with costs of \$673,017 for a sale price of \$2,100,000. The Company has received nonrefundable payments of \$235,000 which have been accounted for as an option deposit.

The following expenses relating to land held for development or sale were capitalized in the periods presented:

	Year ended		
	July 31, 1971	July 31, 1970	July 31, 1969
Real estate taxes	\$ 42,045	23,762	18,452
Mortgage interest	25,080	38,774	93,974
Other expenses	<u>227,597</u>	<u>33,133</u>	<u>55,558</u>
	<u>\$ 294,722</u>	<u>95,669</u>	<u>167,984</u>

(6) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Useful life	July 31, 1971	July 31, 1970
Land and land improvements	20	\$ 1,136,499	1,002,067
Buildings	10 & 45	4,822,055	1,702,924
Machinery, equipment and tools	2-10	1,735,396	1,071,515
Furniture, fixtures and office equipment	5-10	942,131	500,951
Other	1-15	135,952	27,998
Construction in progress		<u>1,388,613</u>	<u>1,171,211</u>
		10,160,646	5,476,666
Less accumulated depreciation and amortization		<u>733,705</u>	<u>230,921</u>
		<u>\$ 9,426,941</u>	<u>5,245,745</u>

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

The straight-line method of depreciation is used for all depreciable assets. Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When properties are retired, sold or otherwise disposed of, the cost and the related accumulated depreciation and amortization is removed from the accounts, and gains and losses resulting from such transactions are reflected in income.

(7) Deferred Charges

The unamortized balance of deferred charges consist of:

	Amortization period	Unamortized Balance (b)		Increase during current year
		July 31, 1971	July 31, 1970	
Patents pending and trademarks	Legal life	\$ 171,680	88,660	83,020
Training and profes- sional development	3 years	491,641	148,636	343,005
Research and development	5 years	671,897	84,496	587,401
Project and production start-up costs	2 to 5 years	844,028	503,539	340,489
Property acquisition costs	(a)	<u>379,546</u>	<u>118,778</u>	<u>260,768</u>
		<u>\$ 2,558,792</u>	<u>944,109</u>	<u>1,614,683</u>

(a) Expenditures in connection with property acquisition will be added to the cost of property subsequently acquired.

(b) See note 13.

In the event of project abandonment or other circumstances causing a loss of value to deferred items, the related unamortized costs are charged to current operations.

(8) Long-Term Debt

Long-term debt consists of the following:

	July 31, 1971	July 31, 1970
Mortgages maturing at various dates through December 31, 1976 and bearing interest at rates ranging from 4 3/4% to 6%	\$ 443,176	704,615
Installment contracts and lease purchase agreements maturing at various dates through August 1974	<u>89,042</u>	<u>124,910</u>
	<u>532,218</u>	<u>829,525</u>
Less payments due within one year	<u>295,630</u>	<u>333,036</u>
	<u>\$ 236,588</u>	<u>496,489</u>

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Land, buildings and equipment with a net book value of \$2,223,803 and \$2,232,091 as of July 31, 1971 and July 31, 1970, respectively, are encumbered under the above agreements.

The required principal payments on long-term debt for the five years subsequent to July 31, 1972 are as follows:

1973	\$ 133,211
1974	69,886
1975	20,488
1976	13,003
1977	

(9) Income Taxes

Deferred taxes relate principally to manufacturing division and installation division sales, depreciation, deferred costs and capitalized costs. None of the Company's tax returns have been examined by the Internal Revenue Service. The tax refund included in note 3 relates to refundable advance tax payments and the planned amendment of the prior year's tax returns.

(10) Stock Options

The Company has a qualified stock option plan in effect whereby options to purchase shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. During February, 1971, authorized shares under the plan were increased from 400,000 to 900,000 shares. Options expire five years after the date of grant and are exercisable in cumulative installments of 20% after one year. A summary of activity follows:

(1) Options outstanding at July 31, 1971:

<u>Period granted</u>	<u>Shares (net of cancellations)</u>	<u>Option and market price per share at date of grant</u>		
		<u>From</u>	<u>To</u>	<u>Total</u>
Year ended July 31, 1970	332,600	\$ 3.00	16.50	2,958,700
Year ended July 31, 1971	<u>268,500</u>	15.13	22.00	<u>4,571,125</u>
	<u>601,100</u>			<u>\$ 7,529,825</u>

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

(2) Shares for which options first
became exercisable:

	<u>Shares</u>	<u>Option price</u>	<u>Market value</u>	<u>Option price</u>	<u>Market price</u>
Year ended					
July 31, 1971	<u>70,160</u>	<u>\$909,920</u>	<u>1,477,630</u>	\$3.00 to \$16.50	\$17.63 to \$23.75

(3) Shares for which options were exercised:

	<u>Shares</u>	<u>Option price</u>	<u>Market value</u>	<u>Option price</u>	<u>Market price</u>
Year ended					
July 31, 1971	<u>11,800</u>	<u>\$37,200</u>	<u>238,292</u>	\$3.00 to \$12.00	\$18.00 to \$22.13

No entries are recorded with respect to options until exercised at which time the excess of the option price over the par value of common stock is credited to paid-in surplus.

(11) Commitments and Contingencies

An action has been brought to enjoin the use of the work "Homex" by the Company. In the opinion of legal counsel, the plaintiff will be unsuccessful in obtaining the relief which it seeks.

A former shareholder of restricted shares of Company common stock has brought an action against the Company and another party, a broker. It is claimed that the Company refused, in concert with the other defendant, to permit the transfer of plaintiff's stock except at a price substantially below its alleged market price. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is engaged in other disputes involving claims which, in the aggregate, are insignificant compared to the Company's net worth.

Construction of a manufacturing plant in Mississippi is expected to be commenced in the latter part of 1971 at an approximate cost of \$4,900,000. In a contract with the Company, Harrison County (where the plant site is located) has agreed to take the steps necessary to authorize the issuance and sale of tax exempt industrial revenue bonds in an amount necessary to meet the cost of constructing and equipping the plant. The contract also provides for a 30-year lease to the Company of the completed facility and the related land. Semi-annual payments in respect of the bonds will be based on principal and interest requirements; an additional \$36,325 is due annually for the land. Options to purchase the plant and the land are provided for during and at the end of the lease term. If the bond offering is not consummated, the Company will arrange to finance the cost of the facility itself.

At July 31, 1971, the Company had leases on various equipment and office facilities with terms ranging from two to six years. Minimum annual rentals under such leases amount to approximately \$404,000 at July 31, 1971.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

Notes payable consist of 90 day unsecured notes to eleven banks bearing interest at a rate 1/2% above the respective bank's best rate on the date of issue. The Company is required to maintain average annual compensating cash balances at each of these banks equal to approximately 15% to 20% of the outstanding indebtedness to such bank.

(12) Earnings Per Share

Earnings per common share are based upon the weighted average number of common shares outstanding during the periods presented after giving retroactive effect to the four for one stock split effected in February 1970. The preferred stock is not considered a common stock equivalent in accordance with Opinion 15 of the Accounting Principles Board of the American Institute of Certified Public Accountants. In addition, the effect of the preferred stock offering, for the fiscal year ended July 31, 1971 on a fully diluted earnings per share calculation is insignificant. Stock options outstanding have not been included in these computations since the effect of their inclusion would be insignificant.

(13) Supplementary Profit and Loss Information

	Year ended July 31, 1969	Year ended July 31, 1970	Year ended July 31, 1971
Maintenance and repairs:			
Cost of sales	\$ 22,221	84,386	219,934
Other	257	8,479	76,963
	<u>22,478</u>	<u>92,865</u>	<u>296,897</u>
Depreciation and amortization:			
Cost of sales	67,985	193,804	284,836
Other	2,100	26,423	244,280
	<u>70,085</u>	<u>220,227</u>	<u>529,116</u>
Amortization of deferred charges:			
Cost of sales	-	-	-
Other	34,002	133,288	432,117
	<u>34,002</u>	<u>133,288</u>	<u>432,117</u>
Taxes other than taxes on income:			
Payroll taxes:			
Cost of sales	89,846	187,190	412,451
Other	7,540	26,757	200,023
Land cost	476	-	-
	<u>97,862</u>	<u>213,947</u>	<u>612,474</u>
Property taxes:			
Cost of sales	6,347	18,594	14,324
Other	-	7,781	32,778
Land cost	18,452	23,762	42,045
	<u>24,799</u>	<u>50,137</u>	<u>89,147</u>
Rents:			
Cost of sales	3,386	76,528	237,991
Other	11,445	112,889	615,453
	<u>\$ 14,831</u>	<u>189,417</u>	<u>853,444</u>

There were no management fees, service fees or royalties paid during the above periods.

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Notes to Consolidated Financial Statements, Continued

(14) Sales to Affiliates

Sales to affiliates represent sales to companies in which certain officers and directors of the Company or their immediate family have an equity interest. Gross profit on sales to affiliates was \$510,233 for the year ended July 31, 1969 and \$59,833 for the year ended July 31, 1970.

(15) Changes in Accounting Principles

During the year ended July 31, 1970, the Company changed its method of recording the installation portion of sales contracts from the completed contract method to the percentage-of-completion method. Although this change had no significant effect on results of operations for fiscal years 1969 and 1970, such results have been retroactively restated to provide consistent application of this change.

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Schedule II

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STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIESSchedule II - Amounts Due from Directors, Officers and Principal
Holders of Equity Securities other than Affiliates (a)

For the two years ended July 31, 1971

<u>Name of Debtor</u>	<u>Balance receivable at beginning of period</u>	<u>Additions</u>	<u>Collections</u>	<u>Balance receivable at close of period</u> <u>Current</u>
Year ended July 31, 1970:				
David Stirling, Jr.	\$ -	91,275	27,017	64,258
Harper Sibley, Jr.	-	36,584	28,906	7,678
Year ended July 31, 1971:				
David Stirling, Jr.	64,258	249,078	270,681	42,655
Harper Sibley, Jr.	7,678	-	7,678	-
Gary Hammons	-	57,500	57,500	-

(a) Included under "Receivables".

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Schedule V

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Schedule V - Property, Plant and Equipment

For the two years ended July 31, 1971

	Balance at beginning of period	Additions at cost	Retirements or sales	Balance at close of period
Year ended July 31, 1970:				
Land and improvements	\$ 188,110	813,957	-	1,002,067
Buildings	435,579	1,267,345	-	1,702,924
Office machines, furniture and fixtures	85,219	415,732	-	500,951
Machinery and equipment	388,020	735,183	51,688	1,071,515
Other	-	27,998	-	27,998
Construction in progress	<u>8,919</u>	<u>1,162,292 (A)</u>	<u>-</u>	<u>1,171,211</u>
Total	\$ <u>1,105,847</u>	<u>4,422,507</u>	<u>51,688</u>	<u>5,476,666</u>
Year ended July 31, 1971:				
Land and improvements	1,002,067	134,432	-	1,136,499
Buildings	1,702,924	3,119,131	-	4,822,055
Office machines, furniture and fixtures	500,951	443,643	2,463	942,131
Machinery and equipment	1,071,515	701,092	37,211	1,735,396
Other	27,998	107,954	-	135,952
Construction in progress	<u>1,171,211</u>	<u>217,402 (A)</u>	<u>-</u>	<u>1,388,613</u>
Total	\$ <u>5,476,666</u>	<u>4,723,654</u>	<u>39,674</u>	<u>10,160,646</u>

(A) Additions to construction in progress are net of transfers to other property, plant and equipment accounts as follows:

Year ended July 31, 1970	\$ 1,804,881
Year ended July 31, 1971	3,537,871

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Schedule VISTIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Schedule VI - Reserves for Depreciation and Amortization of
Property, Plant and EquipmentFor the two years ended July 31, 1971

<u>Classification</u>	<u>Balance at beginning of period</u>
Year ended July 31, 1970:	
Land improvements	\$ 3,096
Buildings	6,583
Office machines, furniture and fixtures	4,295
Machinery and equipment	48,408
Other	-
	<u>\$ 62,382</u>
Year ended July 31, 1971:	
Land improvements	20,409
Buildings	21,132
Office machines, furniture and fixtures	23,279
Machinery and equipment	158,844
Other	7,257
	<u>\$ 230,921</u>

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Schedule VI

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<u>Additions</u>		<u>Deductions</u>	
<u>Charged to</u>	<u>Charged to</u>	<u>from reserves</u>	<u>Balance at</u>
<u>profit and loss</u>	<u>other</u>	<u>Retirements,</u>	<u>close</u>
<u>or income</u>	<u>accounts</u>	<u>renewals and</u>	<u>of period</u>
		<u>replacements</u>	
17,313	-	-	20,409
14,549	-	-	21,132
18,984	-	-	23,279
162,124	-	51,688	158,844
<u>7,257</u>	<u>-</u>	<u>-</u>	<u>7,257</u>
<u>220,227</u>	<u>-</u>	<u>51,688</u>	<u>230,921</u>
29,694	-	-	50,103
150,294	-	-	171,426
75,069	-	90	98,258
242,474	-	26,242	375,076
<u>31,585</u>	<u>-</u>	<u>-</u>	<u>38,842</u>
<u>529,116</u>	<u>-</u>	<u>26,332</u>	<u>733,705</u>

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Schedule VII

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Schedule VII - Intangible Assets (a)

For the two years ended July 31, 1971

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<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Balance at close of period</u>
Year ended July 31, 1970:			
Patents pending	\$ 1,285	78,408	79,693
Trademarks	-	<u>8,967</u>	<u>8,967</u>
	<u>\$ 1,285</u>	<u>87,375</u>	<u>88,660</u>
Year ended July 31, 1971:			
Patents pending	79,693	64,304	143,997
Trademarks	<u>8,967</u>	<u>13,716</u>	<u>27,683</u>
	<u>\$ 88,660</u>	<u>83,020</u>	<u>171,680</u>

(a) Included under "Deferred charges".

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Schedule IX

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

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Schedule IX - Bonds, Mortgages and Similar Debt

July 31, 1971

<u>Name of issuer and title of each</u>	<u>Amount</u> <u>authorized</u> <u>by</u> <u>indenture</u>	<u>Amount</u> <u>issued and</u> <u>not retired</u> <u>or cancelled</u>	<u>Not held</u> <u>by or for</u> <u>account</u> <u>of issuer</u> <u>thereof</u>	<u>Amount incl.</u> <u>in sum ext'd.</u> <u>under caption</u> <u>"Long-term</u> <u>Debt" in</u> <u>related bal.</u> <u>sheets</u>
Installment contracts and lease purchase agreements maturing on various dates from November, 1972 to August, 1974	\$ 238,403	89,042	89,042	36,593
Mortgage loans:				
H. Schader - first mortgage payable maturing February 15, 1973. Payable in yearly installments of \$25,250 plus interest at the rate of 5% per annum	126,250	50,500	50,500	25,250
Graham & Egleston - first mortgage payable maturing July 1, 1972. Payable in yearly installments of \$70,874. Interest at the rate of 5½% per annum is payable semi-annually	300,000	70,874	70,874	None
Graham & Egleston - first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$34,077 plus interest at the rate of 3% per annum	102,230	34,077	34,077	None
Mabel F. Yorman - first mortgage payable maturing September 4, 1973. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	60,000	60,000	40,000
Clay Land Corporation - first mortgage payable maturing February 3, 1974. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	60,000	60,000	40,000
Carried forward	\$ 966,883	364,493	364,493	141,343

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Schedule IX, Cont.

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

42670

Schedule IX - Bonds, Mortgages and Similar Debt, Continued

<u>Name of issuer and title of each</u>	<u>Amount authorized by indenture</u>	<u>Amount issued and not retired or cancelled</u>	<u>Not held by or for account of issuer thereof</u>	<u>Amount incl. in sum ext'd. under caption "Long-term Debt" in related bal. sheets</u>
Brought forward	\$ 966,883	364,493	364,493	141,843
Ruth Chase - first mortgage payable maturing April 1, 1973. Payable in yearly installments of \$24,000 plus interest at the rate of 5% per annum	120,000	48,000	48,000	24,000
Janette A. Wilson - first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$30,677 plus interest at the rate of 6% per annum	92,000	30,666	30,666	None
5% first mortgage payable encumbering land and building at Rochester St., Avon, New York held by Berkshire Life Insurance Company, maturing December 1, 1975. Payable in monthly installments of \$891 each, applicable first to interest and the remainder to principal	57,922	41,559	41,559	32,745
4 3/4% first mortgage payable encumbering land at Alcorn County, Mississippi, held by National Bank of Commerce of Corinth maturing December 3, 1976. Payable in yearly installments of \$9,500 plus interest	57,000	47,500	47,500	38,000
	<u>\$ 1,293,805</u>	<u>532,218</u>	<u>532,218</u>	<u>236,593</u>

Government's Exhibit 17

Schedule XIIISTIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIES

Schedule XIII - Capital Shares

July 31, 1971

42871

<u>Name of issuer and title of issue</u>	<u>Number of shares authorized by charter</u>	<u>Number of shares issued and not retired or cancelled</u>
Stirling Homex Corporation: Preferred stock	500,000	500,000
Common stock	15,000,000	8,909,200

Government's Exhibit 17

Schedule XIII

42672

<u>Number of shares issued which are</u>		<u>Shares outstanding as shown on or included in related balance sheet under caption "Capital Stock"</u>		<u>Number of shares reserved for officers and employees</u>	<u>Number of shares reserved for options and conversions</u>
<u>Held by or for account of issuer thereof</u>	<u>Not held by or for account of issuer thereof</u>	<u>Number</u>	<u>Amount</u>		
-	500,000	500,000	\$500,000	-	-
60,000	8,849,200	8,909,200	89,092	888,200	2,267,510

Government's Exhibit 17

STIRLING HOMEX CORPORATION
AND CONSOLIDATED SUBSIDIARIESCalculation of Common Shares Outstanding
Including the Effect of Stock Options Outstanding
and Convertible Preferred Stock

48070

Effect of options outstanding:

	Year
	<u>July 31, 1969</u>
Weighted average of common shares outstanding	<u>8,025,432</u>
Incremental outstanding shares due to outstanding stock options:	
Primary (see below)	<u>-</u>
Fully diluted (see below)	<u>-</u>
Average shares outstanding including incremental option shares:	
Primary	<u>8,025,432</u>
Fully diluted	<u>8,025,432</u>
% increase due to inclusion of incremental option shares:	
Primary	<u>0%</u>
Fully diluted	<u>0%</u>
	<u>Option price</u>
	<u>range</u>

Summary of computation of incremental shares:

Year ended July 31, 1969	
Year ended July 31, 1970:	
First quarter	\$3.00
Second quarter	\$3.00 to \$10.00
Third quarter	\$3.00 to \$16.50
Fourth quarter	\$3.00 to \$16.50
Year ended July 31, 1971:	
First quarter	\$3.00 to \$18.00
Second quarter	\$3.00 to \$19.75
Third quarter	\$3.00 to \$22.00
Fourth quarter	\$3.00 to \$22.00

- (1) Excludes options which have not met the "substantially all of 3 months" market test or options having a price higher than the average and/or ending market price for the quarter.
- (2) Slight differences in fully diluted figures are due to options exercised during these periods.

Effect of convertible preferred stock:

- (A) In accordance with APB 15, paragraph 33, the 500,000 preferred shares are not a common stock equivalent in that their cash yield (\$2.40 dividend + \$40 issue price = 6%) is in excess of 66 2/3% of the prevailing prime interest rate (in the 6% range). Therefore, primary earnings per share are not affected.

Government's Exhibit 18

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.
20549

0-5250-2
orig

FORM 10-Q

42684

QUARTERLY REPORT UNDER SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

16-0954559
JAN 18 1971

For Quarter Ended January 31, 1971

Commission file number 2-34949STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in charter)

Delaware(State or other jurisdiction of
incorporation or organization)16-0954559(I.R.S. Employer
Identification No.)1150 East River Road, Avon, New York
(Address of principal executive offices)14414
(Zip Code)

Registrant's telephone number

716-926-2481

Government's Exhibit 18

Company or group of companies for which report is filed:

STIRLING HOMEX CORPORATION
and
WHOLLY-OWNED SUBSIDIARIES

42685

Profit and Loss Information

For the Six Months Ended:

	<u>January 31, 1971</u> (Current Year)	<u>January 31, 1970</u> (Note 2) (Preceding Year)
1. Gross sales less discounts, returns and allowances	\$ 15,928,758	\$ 10,474,489
2. Operating revenues	---	---
3. Total of captions 1 and 2	15,928,758	10,474,489
4. Costs and expenses --		
Interest expense	721,614	219,676
Other costs and expenses	<u>12,676,313</u>	<u>7,934,571</u>
Total costs and expenses	13,397,927	8,154,247
5. Income (or loss) before taxes on income and extraordinary items	2,530,831	2,320,242
6. Provision for taxes on income	1,307,562	1,297,479
7. Minority interest	---	---
8. Income (loss) before extraordinary items	1,223,269	1,022,763
9. Extraordinary items, less applicable income tax	---	---
10. Net income (or loss)	1,223,269	1,022,763
11. Earnings per share (computed on weighted average number of shares outstanding)	.14	.12
Average number of common shares outstanding	8,897,400	8,472,400
12. Dividends per share	---	---

The accompanying notes are an integral part of this report.

Government's Exhibit 18

B. Capitalization and Stockholders' Equity

42686

January 31, 1971

		<u>Amount</u>
Debt		
Short-term loans, notes, etc. (Note 3)		\$26,250,000
Long-term debt, including parenthetically portion due within one year (317,766) (Note 4)		<u>720,043</u>
Total debt		<u>\$26,970,043</u>
Deferred credits (Income tax)		587,263
Minority interest		—
Stockholders' Equity		
	<u>Shares issued or outstanding</u>	<u>Amount</u>
Preferred stock	---	---
Common stock (Note 5)	8,897,400	\$ 86,974
Capital in excess of par value		8,446,738
Retained Earnings --		
Balance at beginning of current fiscal year		3,117,670
Prior period adjustments, if any		---
Net Income		1,223,269
Dividends		---
Other credits (charges)		<u>---</u>
Balance at end of interim period		4,340,939
Treasury stock		---
Total stockholders' equity		<u>\$12,876,651</u>

The accompanying notes are an integral part of this report.

Government's Exhibit 18

STIRLING HOMEX CORPORATION

42687

Notes to Form 10-Q

1. Principles of Consolidation:

The consolidated financial information includes the accounts of Stirling Homex Corporation and all of its wholly-owned subsidiaries, except U. S. Shelter Corporation, a wholly-owned finance subsidiary. Investment in the non-consolidated subsidiary is carried on the equity method. A separate report for the subsidiary is not included since the information required by the 10-Q report is immaterial with regard to the subsidiary. In the opinion of management, all material adjustments necessary for a fair presentation of the financial information presented have been made.

2. Change in Accounting Principles:

During the fiscal year ended July 31, 1970, the Company changed its method of recording income on the site development and installation portion of sales contracts from the completed contract method to the percentage-of-completion method. The results for the six months ended January 31, 1970, have been restated to reflect this change. The effect on net income and earnings per share is immaterial.

3. Notes Payable to Banks:

Notes payable to banks consist of short-term notes payable as follows:

Unsecured notes, maturing from 2/2/71 to 4/26/71 bearing interest from 6 $\frac{1}{4}$ % to 7 $\frac{1}{2}$ %	26,250,000
---	------------

4. Long-Term Debt:

As of January 31, 1971, the long-term debt consisted of the following:

Mortgages Payable:	Current Liabilities	Long-Term Debt
Mortgages maturing from 10/16/70 through 12/31/75 and bearing interest at rates ranging from 4 $\frac{3}{4}$ % to 6%. These mortgages encumber land and buildings carried at the aggregate amount of \$1,596,772.	242,752	344,793
Installment Contracts and long-term lease purchases payable maturing from 2/1/71 through 12/1/74	75,014	57,484
	<u>317,766</u>	<u>402,277</u>

The required principal payments on long-term debt for the five years

Government's Exhibit 18

STIRLING HOMEX CORPORATION

(Notes to Form 10-Q (Cont'd))

42688

ending July 31, are as follows:

1971	337,562
1972	301,212
1973	133,840
1974	70,095
1975	20,488

5. Common Stock:

The Company has a qualified stock option plan in effect whereby options to purchase 900,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of January 31, 1971, 483,100 options were granted at prices ranging from \$3.00 to \$19.75 per share.

Shares issuable under employee stock options have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

6. Contingencies:

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company this action is without merit and can be successfully defended.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233 excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

The consolidated Federal income tax returns for the years ended July 31, 1969 and 1970 are subject to the usual review by the Internal Revenue Service.

Two wholly-owned Subsidiaries remain contingently liable as makers on first mortgages aggregating approximately \$65,000 encumbering properties which were sold prior to the current period.

E 318

Government's Exhibit 18

42669

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIRLING HOMEX CORPORATION

By Edwin J. Schulz
Edwin J. Schulz /
Vice President and Controller

Date March 12, 1971

Government's Exhibit 20

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.
20549

0-5250-2
42684

FORM 10-Q

REC'D SEC.

JUN 17 1971

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 30, 1971

Commission File Number 2-34949STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in charter)

Delaware(State of other jurisdiction of
incorporation or organization)16-0954559(I.R.S. Employer
Identification No.)1150 East River Road, Avon, New York
(Address of principal executive offices)14414
(Zip Code)

Registrant's telephone number

716-926-2481

Government's Exhibit 20

Company or group of companies for which report is filed:

STERLING HOMEX CORPORATION
and
WHOLLY-OWNED SUBSIDIARIES

42695

Profit and Loss Information (Unaudited)

For the Nine Months Ended:

	<u>April 30, 1971</u> (Current Year)	<u>April 30, 1970 (Note 2)</u> (Preceding Year)
1. Gross sales less discounts, returns and allowances (B)	\$26,392,281	\$14,985,238
2. Operating revenues (equity in undistributed net income of finance subsidiary - Note 1)	84,434	-
3. Total of captions 1 and 2	26,476,715	14,985,238
4. Costs and expenses --		
Interest expense	1,261,609	439,308
Other Costs and Expenses	<u>20,262,221</u>	<u>11,111,014</u>
Total Costs and Expenses	21,523,830	11,550,322
5. Income (or loss) before taxes on income and extraordinary items	4,952,885	3,434,916
6. Provision for taxes on income	2,543,766	1,897,954
7. Minority interest	---	---
8. Income (loss) before extraordinary items	2,409,119	1,536,962
9. Extraordinary items, less applicable income tax	---	---
10. Net income (or loss) (B)	2,409,119	1,536,962
11. Earnings per share (computed on weighted average number of shares outstanding)	.27	.18
Average number of common shares outstanding	8,891,760	8,566,844
12. Dividends per share	---	---

(A) The results for the nine months ended April 30, 1971, should not necessarily be considered indicative of the results for the year ending July 31, 1971.

(B) Sales-trade for the nine months ended April 30, 1971, include sales of land held for development in the amount of \$1,822,723, resulting in net income therefrom of approximately \$556,000 or \$.06 per share.

The accompanying notes are an integral part of this report.

Government's Exhibit 20

B. Capitalization and Stockholders' Equity
April 30, 1971

42686

<u>Debt</u>		<u>Amount</u>
Short-term loans, notes, etc. (Note 3)		\$33,700,000
Long-term debt, including parenthetically portion due within one year (307,458) (Note 4)		<u>628,027</u>
Total debt		<u>\$34,328,027</u>
Deferred credits (Income tax)		1,339,564
Minority interest		---
Stockholders' Equity		
	<u>Shares issued or outstanding</u>	<u>Amount</u>
Preferred stock	---	---
Common Stock (Note 5)	8,909,000	89,090
Capital in excess of par value		8,481,422
Retained Earnings --		
Balance at beginning of current fiscal year		3,117,670
Prior period adjustments, if any		---
Net income		2,409,119
Dividends		---
Other credits (charges)		<u>---</u>
Balance at end of interim period		5,526,789
Treasury Stock (60,000 shares at cost)		(180,750)
Total stockholders' equity		<u>\$13,916,551</u>

The accompanying notes are an integral part of this report.

Government's Exhibit 20

STIRLING HOMEX CORPORATION

42697

Notes to Form 10-Q

1. Principles of Consolidation:

The consolidated financial information includes the accounts of the Company and its subsidiaries except for U.S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated. In the opinion of management, all material adjustments necessary for a fair presentation of the financial information presented have been made.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET

April 30, 1971

Assets	April 30, 1971
Cash	\$ 3,690
Accounts Receivable	3,300,019
Other assets	10,760
	<u>\$3,314,469</u>
Liabilities & Stockholder's Equity	
Note payable-bank (7%)	3,000,000
Payables and accrued expenses (primarily income taxes payable)	92,953
Due to parent company	37,082
Stockholder's equity	184,434
	<u>\$3,314,469</u>

STATEMENT OF INCOME

From Date of Incorporation (September 25, 1970) to April 30, 1971

Finance income	300,000
General and administrative expenses	125,788
	<u>174,212</u>
Income taxes	89,779
Net Income	<u>\$ 84,434</u>

Government's Exhibit 20

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

426SC

1. Principles of Consolidation: (Cont'd)

The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds are being used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

At April 30, 1971, accounts receivable of U.S. Shelter include \$3,000,000 which relates to accounts assigned to U.S. Shelter by the Company for which U.S. Shelter remitted cash in that amount to the Company.

2. Change in Accounting Principles:

During the fiscal year ended July 31, 1970, the Company changed its method of recording income on the site development and installation portion of sales contracts from the completed contract method to the percentage-of-completion method. The results for the nine months ended April 30, 1970, have been restated to reflect this change. The effect on net income and earnings per share is immaterial.

3. Notes Payable to Banks:

Notes payable to banks consist of short-term notes payable as follows:

Unsecured notes, maturing from 5/3/71 to 7/21/71 bearing interest from 5-3/4% to 6-1/2%	33,700,000
---	------------

4. Long-Term Debt:

As of April 30, 1971, the long-term debt consisted of the following:

Mortgages payable:

Mortgages maturing at various dates through December 31, 1975 and bearing interest at rates ranging from 4-3/4% to 6%. These mortgages encumber land and buildings carried at the aggregate amount of \$1,632,000.	516,185
--	---------

Installment contracts and lease purchase agreements maturing at various dates through August, 1974.	111,842
	628,027

Less payments due within one year	307,458
	<u>\$ 320,569</u>

Government's Exhibit 20

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

42689

4. Long-Term Debt: (Cont'd)

The required principal payments on long-term debt for the next five years are as follows:

1973	208,752
1974	70,950
1975	21,862
1976	15,611
1977	3,394

5. Common Stock:

The Company has a qualified stock option plan in effect whereby options to purchase 900,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of April 30, 1971, 539,400 options had been granted at prices ranging from \$3.00 to \$22.00 per share. 11,600 options have been exercised and a like number of shares issued at a price of \$3.00 per share.

Stock options outstanding have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

6. Contingencies:

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company the plaintiff will be unsuccessful in obtaining the relief which it seeks.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233 excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

A complaint was served on March 2, 1971, in an action against the Company and another party, a broker, to recover damages allegedly suffered by a former shareholder of restricted shares of Company common stock. It is alleged that the Company refused, in concert with the other party, to permit the transfer of plaintiff's stock except at a price substantially below market. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

Government's Exhibit 20

42700

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIRLING HOMEX CORPORATION

By Edwin J. Schulz
Edwin J. Schulz
Vice President and Controller

Date June 15, 1971

Government's Exhibit 24

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.
20549

0-5250-2

6-19

FORM 10-Q

42711

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended October 31, 1971

Commission File Number 2-34949STANLEY HOMEX CORPORATION

(Exact name of registrant as specified in charter)

Delaware(State of other jurisdiction of
incorporation or organization)16-0954559(I.R.S. Employer
Identification No.)1150 East River Road, Avon, New York
(Address of principal executive offices)14414
(zip code)

Registrant's telephone number

716-826-2481

Government's Exhibit 24

Company or group of companies for which report is filed.

STIRLING HOMEX CORPORATION
and
WHOLLY-OWNED SUBSIDIARIES

42712

Profit and Loss Information (Unaudited)

For the Three Months Ended:

	October 31, 1971 (Current Year)	October 31, 1970 (Preceding Year)
1. Gross sales less discounts, returns and allowances:		
Manufacturing Division	\$ 8,552,173	\$ 4,572,360
Installation Division	1,609,000	2,952,439
2. Operating revenues (equity in undistributed net income of finance subsidiary - Note 1)	73,914	-
3. Total of captions 1 and 2	10,235,087	7,524,819
4. Costs and expenses --		
Cost of sales:		
Manufacturing Division	4,884,999	3,195,902
Installation Division	1,493,000	2,553,031
Administrative & selling expenses	1,480,265	427,360
Interest Expense	570,528	304,226
Total Costs and expenses	8,428,782	6,460,519
5. Income (or loss) before taxes on income and extraordinary items	1,806,305	1,044,300
6. Provision for taxes on income	912,457	539,276
7. Minority interest	---	---
8. Income (loss) before extraordinary items	893,848	505,024
9. Extraordinary items, less applicable income tax	---	---
10. Net income (or loss)	893,848	505,024
Preferred stock dividend requirement	279,421	---
Net income available for common stock	614,427	505,024
11. Earnings per common share (computed on weighted average number of shares outstanding)	.07	.06
Average number of common shares outstanding	8,859,848	8,897,400
12. Dividends per share (common stock)	---	---

Note: The results for the three months ended Oct. 31, 1971, should not necessarily be considered indicative of the results for the year ending July 31, 1972.

The accompanying notes are an integral part of this report.

Government's Exhibit 24

D. Capitalization and Stockholder's Equity

42713

<u>Debit</u>		<u>Amount</u>
Short-term loans, notes, etc. (Note 2)		\$31,700,000
Long-term debt, including parenthetically portion due within one year (222,716) (Note 3)		<u>426,782</u>
Total debt		<u>\$32,126,782</u>
Deferred credits - income tax		2,098,767
Option deposit on land contract		235,000
Minority interest		---
Stockholder's Equity		
	<u>Shares issued or outstanding</u>	<u>Amount</u>
Preferred stock (convertible)	426,026	426,026
Common Stock (Note 4)	9,114,056	91,141
Capital in excess of par value		26,623,637
Retained earnings --		
Balance at beginning of current fiscal year		6,370,333
Prior period adjustments, if any		---
Net income		893,848
Preferred dividends		(279,421)
Other credits (charges)		<u>---</u>
Balance at end of interim period		6,984,760
Treasury Stock (50,000 shares at cost)		<u>(180,750)</u>
Total Stockholders' equity		<u>\$32,940,814</u>

The accompanying notes are an integral part of this report.

Government's Exhibit 24

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

42714

1. Principles of Consolidation:

The consolidated financial information includes the accounts of the Company and its subsidiaries except for U.S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated. In the opinion of management, all material adjustments necessary for a fair presentation of the financial information presented have been made.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET
October 31, 1971

Assets

Cash	34,679
Accounts Receivable (note a)	1,217,458
Other assets	21,819
Due from parent company	137,636
	<u>\$ 1,411,794</u>

Liabilities & Stockholder's Equity

Payables and accrued expenses (Primarily income taxes payable)	203,301
Stockholder's equity	1,208,493
	<u>\$ 1,411,794</u>

STATEMENT OF INCOME

For the Three Months Ended October 31, 1971

Finance Income	207,817
General and administrative expenses	51,617
	156,200
Income taxes	82,286
Net Income	<u>\$ 73,914</u>

Notes: (a) Accounts receivable includes \$900,000 relating to accounts assigned to U.S. Shelter by the company for which U.S. Shelter omitted cash.

(b) The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds will be used in financing transactions involving customers of the company. The company has not guaranteed this line of credit.

Government's Exhibit 24

STIRLING HOMEX CORPORATION

42715

Notes to Form 10-Q

2. Notes Payable to Banks:

Notes payable to banks consist of short-term notes payable as follows:

Unsecured notes, maturing from 11/1/71 to 1/24/72 bearing interest from 6% to 6- $\frac{1}{2}$ %	\$31,700,000
--	--------------

3. Long-Term Debt:

As of October 31, 1971, the long-term debt consisted of the following:

Mortgages payable:

Mortgages maturing at various dates through December 31, 1975, and bearing interest at rates ranging from 4-3/4% to 6%. These mortgages encumber land and buildings carried at the aggregate amount of \$2,406,000.	356,271
---	---------

Installment contracts and lease purchase agreements maturing at various dates through August, 1974.	70,511
	\$ 426,782

Less payments due within one year	222,716
	<u>\$ 204,066</u>

The required principal payments on long-term debt for the five years subsequent to October 31, 1972 are as follows:

1973	126,678
1974	47,159
1975	19,866
1976	10,363
1977	-

4. Common Stock:

The Company has a qualified stock option plan in effect whereby options to purchase 900,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of October 31, 1971, 578,000 options had been granted at prices ranging from \$3.00 to \$22.00 per share. 12,600 options have been exercised and a like number of shares issued at prices of \$3.00 and \$12.00 per share.

Government's Exhibit 24

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

42716

4. Common Stock (cont'd)

Stock options outstanding have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

5. Contingencies:

A former shareholder of restricted shares of Company common stock has brought an action against the Company and another party, a broker. It is claimed that the Company refused, in concert with the other defendant, to permit the transfer of plaintiff's stock except at a price substantially below its alleged market price. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is engaged in other disputes involving claims which, in the aggregate, are insignificant compared to the Company's net worth.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIRLING HOMEX CORPORATION

BY Howard A. Bartlett
Howard A. Bartlett

Date Dec. 13, 1971

RECORDED
DEC 15 1971

Government's Exhibit 25

6-5250-2
RECEIVED

6210

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

42724

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended January 31, 1972

Commission File Number 0-5250STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in charter)

Delaware(State of other jurisdiction of
incorporation or organization)16-0954559(I.R.S. Employer
Identification No.)1150 East River Road, Avon, N.Y.14414

(zip code)

Registrant's telephone number

716-926-2481

Indicate by check mark whether the registrant has filed all annual, quarterly and other reports required to be filed with the Commission within the past 90 days and in addition has filed the most recent annual report required to be filed. Yes ☒ No ☐

Government's Exhibit 25

A. Summarized Financial Information

Company or group of companies for which report is filed:

STIRLING HOMEX CORPORATION
and
WHOLLY-OWNED SUBSIDIARIES

42725

Profit and Loss Information (Unaudited)

For the Six Months Ended:
(Note 6)

	January 31, 1972 (Current Year)	January 31, 1971 (Preceding Year)
Gross sales less discounts, returns and allowances:		
Manufacturing Division	\$ 9,957,373	\$ 10,220,970
Installation Division (Note 7)	3,468,906	3,607,788
2. Operating revenues (equity in undistributed net income of finance subsidiary Note 1)	67,235	---
3. Total of captions 1 and 2	13,493,514	13,828,758
4. Costs and expenses--		
Cost of sales:		
Manufacturing Division	6,634,518	6,998,198
Installation Division	4,692,805	3,349,244
Administrative & selling expenses	3,622,219	1,655,854
Interest Expense	<u>1,100,456</u>	<u>721,614</u>
Total Costs and Expenses	16,049,998	12,724,910
5. Income (or loss) before taxes on income and extraordinary items	(2,556,484)	1,103,848
6. Provision for taxes on income	1,377,452	(570,311)
7. Minority Interest	---	---
8. Income (loss) before extraordinary items	(1,179,032)	533,537
9. Extraordinary items, less applicable income tax	---	---
10. Net income (or loss) (Note 8)	(1,179,032)	533,537
Preferred stock dividend requirement	520,638	---
Net income (loss) available for common stock	(1,699,670)	533,537
11. Earnings (loss) per common share (computed on weighted average number of shares outstanding)	(.19)	.06
Average number of common shares outstanding	8,960,992	8,897,400
12. Dividends per share (common stock)	---	---

Note: The results for the six months ended Jan. 31, 1972, should not necessarily be considered indicative of the results for the year ending July 31, 1972. The accompanying notes are an integral part of this report.

Government's Exhibit 25

B. Capitalization and Stockholder's Equity
January 31, 1972

42726

<u>Debt</u>		<u>Amount</u>
Short-term loans, notes, etc. (Note 2)		\$ 37,200,000
Long-term debt, including parenthetically portion due within one year (207,553) (Note 3)		<u>378,859</u>
Total debt		<u>\$ 37,578,859</u>
Deferred credits - income tax		2,618,767
Option deposit on land contract (Note 6)		235,000
Advance deposits on contracts		300,000
Minority interest		---
Stockholder's Equity		
	<u>Shares issued or outstanding</u>	<u>Amount</u>
Preferred Stock (convertible)	394,899	394,899
Common Stock (Note 4)	9,201,914	92,019
Capital in excess of par value		26,664,631
Retained earnings ---		
Balance at beginning of current fiscal year		6,370,333
Prior period adjustments, if any		---
Net (loss)		(1,179,032)
Preferred dividends		(520,638)
Other credits (charges)		---
Balance at end of interim period		4,670,663
Treasury Stock (57,400 shares at cost)		<u>(172,918)</u>
Total Stockholder's Equity		<u>\$ 31,649,294</u>

The accompanying notes are an integral part of this report.

Government's Exhibit 25

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

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1. Principles of Consolidation

Consolidated financial information includes the accounts of the Company and its subsidiaries except for U. S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated. In the opinion of management, all material adjustments necessary for a fair presentation of the financial information presented have been made.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET

January 31, 1972

Assets

Cash	56,801
Accounts Receivable (note a)	1,219,600
Other Assets	17,027
Due from parent company	104,309
	<u>\$1,397,737</u>

Liabilities & Stockholder's Equity

Payables and accrued expenses (Primarily income taxes payable)	195,923
Stockholder's equity	<u>1,201,814</u>
	<u>\$1,397,737</u>

STATEMENT OF INCOME

For the Six Months Ended January 31, 1972

Finance Income	205,402
Interest Income	29,179
General and Administrative expenses	<u>(92,494)</u>
	142,087
Income taxes	<u>74,852</u>
Net Income	<u>\$ 67,235</u>

Notes: (a) Accounts receivable includes \$900,000 relating to accounts assigned to U. S. Shelter by the company for which U. S. Shelter remitted cash.

(b) See Note 2

Government's Exhibit 25

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

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2. Notes Payable to Banks:

Notes payable to banks consist of short-term notes payable as follows:

Unsecured notes, maturing from 2/16/72 to 4/17/72 bearing interest from 5% to 6%

\$37,200,000

The Company and U.S. Shelter have entered into agreements as of January 24, 1972 with certain banks, which became effective in February, 1972, providing for revolving credit through July 31, 1972, for working capital purposes, in the aggregate amount of \$55,000,000. The Company may borrow an amount equal to 60% of its receivables as defined in the agreement, not to exceed \$25,000,000 at any one time outstanding. U.S. Shelter Corporation may borrow an amount equal to 85% of its receivables as defined, not to exceed \$20,000,000 at any one time outstanding or \$30,000,000 when the aggregate of uninstalled modules for the Company is reduced to 5,500. The Company is not in compliance with certain of the covenants contained in its agreement with the banks. The loan agreement provides that while the Company is not in compliance with these covenants, unless the banks holding two-thirds of the principal amount of the notes outstanding waive compliance and consent thereto, the Company is not permitted to pay dividends to its holders of preferred stock. In addition, unless the banks holding two-thirds of the principal amount of the notes outstanding waive compliance, the notes to the banks may be declared immediately due and payable.

3. Long-Term Debt:

As of January 31, 1972, the long-term debt consisted of the following:

Mortgages maturing at various dates through December 31, 1975, and bearing interest at rates ranging from 4-3/4% to 6%. These mortgages encumber land, buildings, and equipment carried at the aggregate amount of \$2,329,000.

344,581

Installment contracts and lease purchase agreements maturing at various dates through August, 1974.

34,278

\$ 378,859

Less payments due within one year

207,553

\$ 171,306

Government's Exhibit 25

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

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3. (cont'd)

The required principal payments on long-term debt for the five years subsequent to January 31, 1973, are as follows:

1974	93,918
1975	47,159
1976	19,866
1977	10,363
1978	---

4. Common Stock:

The Company has a qualified stock option plan in effect whereby options to purchase 900,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of January 31, 1972, 603,500 options had been granted at prices ranging from \$3.00 to \$22.00 per share. 17,200 options have been exercised and a like number of shares issued at prices of \$3.00 and \$12.00 per share.

Stock options outstanding have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

5. Contingencies:

A former shareholder of restricted shares of Company common stock has brought an action against the Company and another party, a broker. It is claimed that the Company refused, in concert with the other defendant, to permit the transfer of plaintiff's stock except at a price substantially below its alleged market price. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is engaged in other disputes involving claims which, in the aggregate, are insignificant compared to the Company's net worth.

6. The results for the six months ended January 31, 1971, have been restated to reflect the elimination of the sale of a parcel of land for an aggregate contract price of \$2,100,000, and net income of \$689,732. The Company has received non-refundable payments of \$235,000 which were accounted for as an option deposit in the July 31, 1971 annual report.

Government's Exhibit 25

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

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7. The amounts received by the Company from its customers and paid to general contractors are not included in revenues. This sum amounted to \$910,523 during the six months ended January 31, 1972.
8. The Company has since its inception recognized the recorded manufacturing sales when a module has been completed and assigned to a specific contract. Module installation and site work are recorded on a percentage-of-completion method. Before management is satisfied that a module sale has taken place, there must exist a finished module, an identified source of funding for the purchaser and an appropriate site. Other criteria must also be satisfied. During the quarter ended January 31, 1972, management decided not to report sales of 682 dwelling units manufactured in performance of certain contracts because not all of the criteria which management deems necessary for the recognition of manufacturing sales had been met. The units are valued in inventory at cost.

Productivity levels and related margins were reduced during the period due to the prototype development of the new concrete and steel patio home and high-rise systems. A significant increase in manufacturing and administrative and selling overhead has occurred as a result of developing these new markets.

An allowance for doubtful accounts in the amount of \$300,000 was established during the period based on a review and aging of pending changeorder, claim and retainage account receivable balances. This amount contributes to the increase noted in administrative and selling expenses.

Installation division costs increased substantially due to engineering, weather and other difficulties experienced on certain contracts in process.

C. Sales of Unregistered Securities

(Debt or Equity)

1. On December 6 and December 23, 1971, the registrant sold an aggregate of 2,600 shares of common stock.
2. The market price on the date of sale is inapplicable.
3. No brokers were involved in the transactions. The shares were sold to employees of the registrant pursuant to its Qualified Stock Option Plan.

The aggregate offering price was \$3.00 per share. There were no underwriting discounts, brokerage commissions or finder's fees. The shares were sold at the offering price for cash.

Government's Exhibit 25

STIRLING HOMEX CORPORATION

Notes to Form 10-Q

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5. Exemption is claimed in reliance upon Section 4 (2) of the Securities Act of 1933 as amended.
6. The shares have been legended and stop-transfer instructions given in connection therewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIRLING HOMEX CORPORATION

By Howard A. Bartlett
Howard A. Bartlett
Controller

Date March 15, 1972

Government's Exhibit 28

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.C-5250-2
42740 *orig*
SEC-S.E.C.

JUN 14 1972

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended April 30, 1972

Commission File Number 0-5250STIRLING HOMEX CORPORATION
(Exact name of registrant as specified in charter)Delaware
(State of other jurisdiction of
incorporation or organization)16-0954559
(I.R.S. Employer
Identification No.)1150 East River Road, Avon, N.Y.14414
(Zip Code)

Registrant's telephone number

716-926-2481Indicate by check mark whether the registrant has filed all annual, quarterly and
other reports required to be filed with the Commission within the past 90 days and
in addition has filed the most recent annual report required to be filed. Yes ☒ No ☐

Government's Exhibit 23

A. Summarized Financial Information

Company or group of companies for which report is filed:

42741

STERLING HOMEX CORPORATION
and
WHOLLY-OWNED SUBSIDIARIES

Profit and Loss Information (Unaudited)	For the Nine Months Ended:	
	April 30, 1972 (Current Year)	April 30, 1971 (Note 6) (Preceding Year)
1. Gross sales less discounts, returns and allowances:		
Manufacturing Division	\$10,955,473	\$18,183,170
Installation Division	5,461,879	6,386,388
2. Operating revenues (net income of finance subsidiary) (Note 1)	(15,146)	84,434
3. Total of captions 1 and 2	16,402,206	24,653,992
4. Costs and expenses--		
Cost of sales:		
Manufacturing Division	15,551,432	11,414,275
Installation Division	16,208,192	5,863,586
Administrative & selling expenses	8,029,119	2,311,343
Interest Expense	1,719,300	1,308,809
Total Costs and Expenses	41,508,043	20,898,013
5. Income (or loss) before taxes on income and extraordinary items	(25,105,837)	3,755,979
6. Provision for taxes on income	6,900,000	(1,924,766)
7. Minority Interest	---	---
8. Income (loss) before extraordinary items	(18,205,837)	1,831,213
9. Extraordinary items, less applicable income tax	---	---
10. Net income (or loss) (Note 7)	(18,205,837)	1,831,213
Preferred stock dividend requirement	756,346	---
Net income (loss) available for common stock	(18,962,183)	1,831,213
11. Earnings (loss) per common share (computed on weighted average number of shares outstanding)	(2.10)	.21
Average number of common shares outstanding	9,018,111	8,891,760
12. Dividends per share (common stock)	---	---

Note: The results for the nine months ended April 30, 1972 should not necessarily be considered indicative of the results for the year ending July 31, 1972. The accompanying notes are an integral part of this report.

Government's Exhibit 28

B. Capitalization and Stockholder's Equity

42742

April 30, 1972

<u>Debt</u>		<u>Amount</u>
Short-term loans, notes, etc. (Note 2)		\$38,107,438
Long-term debt, including parenthetically portion due within one year (201,421) (Note 3)		<u>299,295</u>
Total Debt		<u>\$38,406,733</u>
Deferred credits		
Option deposit on land contract (Note 6)		235,000
Minority interest		---
Stockholder's Equity		
	<u>Shares issued or outstanding</u>	<u>Amount</u>
Preferred Stock (Convertible)	392,847	392,847
Common Stock (Note 4)	9,207,570	92,076
Capital in excess of par value		26,666,516
Retained earnings (deficit)		
Balance at beginning of current fiscal year		6,370,333
Prior period adjustments, if any		---
Net (loss)		(18,205,837)
Preferred dividends		(756,346)
Other credits (charges)		<u>---</u>
Balance at end of interim period		(12,591,840)
Treasury Stock (55,400 shares at cost)		<u>(166,993)</u>
Total Stockholder's Equity		<u>\$14,392,696</u>

The accompanying notes are an integral part of this report.

Government's Exhibit 28

STIRLING HOMEX CORPORATION

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Notes to Form 10-Q

1. Principles of Consolidation

The consolidated financial information includes the accounts of the Company and its subsidiaries (all of which are wholly-owned). During the nine months ended April 30, 1972, the financial statements of U.S. Shelter Corporation, the Company's financing subsidiary, have been included on a consolidated basis. The operating results of this subsidiary have been reflected in the profit and loss information as a single line item since its operations are insignificant.

2. Notes Payable to Banks

Notes payable to banks consist of secured notes maturing July 31, 1972 as follows:

	<u>Amount</u>	<u>Interest Rate</u>
Stirling Homex Corporation	\$22,336,880	Prime + 2%
U.S. Shelter Corporation	<u>15,770,558</u>	Prime + 3%
	\$38,107,438	

The Company and U.S. Shelter Corporation each have entered into agreements as of January 24, 1972 with certain banks, which became effective in February 1972, providing for revolving credit through July 31, 1972 for working capital purposes, in the aggregate amount of \$55,000,000. As collateral for its loans, the Company has given a security interest in its account receivables and inventory and has pledged the stock of Kabeth Properties, Inc. and U.S. Shelter Corporation, wholly-owned subsidiaries. U.S. Shelter Corporation has given a security interest in its receivables and assigned the proceeds thereof as collateral for its loans.

The Company may borrow an amount equal to 60% of its receivables as defined in the agreement, not to exceed \$25,000,000 at any one time outstanding. U.S. Shelter Corporation may borrow an amount equal to 85% of its receivables as defined, not to exceed \$20,000,000 at any one time outstanding or \$30,000,000 when the aggregate of uninstalled modules for the Company is reduced to 5,500. The Company and U.S. Shelter are not in compliance with certain of the covenants contained in their agreements with the banks.

There has been agreement with the banks, pending full compliance with the credit agreements and in consideration of the banks lending the Company additional funds in excess of the borrowing base defined in the credit agreements, that the land and buildings owned by the Company are to be mortgaged to the banks. The Company will guarantee the obligations of U.S. Shelter under its agreement. David Stirling, Jr. and William G. Stirling will pledge to the banks all unencumbered shares of stock of the Company owned by them as security for the loans in excess of the borrowing base.

The Company's agreement provides that while it is not in compliance with these covenants, unless the banks holding two-thirds of the principal amount of the

Government's Exhibit 28

STIRLING HOMEX CORPORATION

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Notes to Form 10-Q

(con'td)

notes outstanding waive compliance and consent thereto, the Company is not permitted to pay dividends to its holders of preferred stock. In addition, banks holding two-thirds of the principal amount of the notes outstanding may declare the notes immediately due and payable. The notes under the U.S. Shelter agreement may be declared immediately due and payable by Chemical Bank.

3. Long-Term Debt

As of April 30, 1972, the long-term debt consisted of the following:

Mortgages maturing at various dates through December 31, 1975, and bearing interest at rates ranging from 4-3/4% to 6%. These mortgages encumber land, buildings, and equipment carried at the aggregate amount of \$2,474,000.	273,125
Installment contracts and lease purchase agreements maturing at various dates through August, 1974.	<u>26,170</u>
	\$ 299,295
Less payments due within one year	<u>201,421</u>
	<u>\$ 97,874</u>

The required principal payments on long-term debt for the five years subsequent to April 30, 1973, are as follows:

1974	62,652
1975	19,611
1976	15,611
1977	-
1978	-

4. Common Stock

The Company has a qualified stock option plan in effect whereby options to purchase 900,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of April 30, 1972, 542,300 options were outstanding at prices ranging from \$3.00 to \$19.50 per share. During the nine months ended April 30, 1972, 7400 options were exercised and a like number of shares were issued at \$3.00 per share.

Government's Exhibit 23

STIRLING HOMEX CORPORATION

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Notes to Form 10-Q

(cont'd)

stock options outstanding have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

5. Contingencies:

A former shareholder of restricted shares of common stock has brought an action against the Company and another party, a broker. It is claimed that the Company refused, in concert with the other defendant, to permit the transfer of plaintiff's stock except at a price substantially below its alleged market price. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

On May 1, 1972, the registrant was served with a summons and complaint in a lawsuit against certain shareholders who are officers and/or directors, one shareholder who is neither an officer or director, Peat, Marwick, Mitchell & Co., independent certified public accountants, and the registrant. The action purports to be brought on behalf of a class of persons who purchased the registrant's securities between March 16, 1971 and March 20, 1972. The complaint alleges, in substance, that during such period, the registrant issued certain financial statements and other reports which materially overstated the registrant's revenues, profits, assets and stockholders' equity and understated reserves and liabilities. It is alleged that, as a result of the aforesaid statements and reports, the market price of the registrant's securities were artificially inflated during the period March 16, 1971 through March 20, 1972. Plaintiffs request an award of damages to all members of the class together with costs and expenses, including reasonable counsel and accounting fees. It is also alleged that the individual defendants sold shares of common stock of the registrant during the period September 1, 1971 through March 20, 1972 in order to reap large profits for themselves before the registrant reported that it had a net loss before taxes of over \$4,000,000 for the three months ended January 31, 1972.

The Company is engaged in other disputes involving claims which, in the aggregate, are insignificant compared to the Company's net worth.

6. The results for the nine months ended April 30, 1971 have been restated to reflect the elimination of the sale of a parcel of land for an aggregate contract price of \$2,100,000, and net income of approximately \$556,000. The Company has received non-refundable payments of \$235,000 which were accounted for as an option deposit in the July 31, 1971 annual report.

Government's Exhibit 28

STIRLING HOMEX CORPORATION

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Notes to Form 10-Q

7. During the nine months ended April 30, 1972, 850 dwelling units manufactured in performance of a certain contract were not recorded in sales because all of the criteria deemed necessary for the recognition of sales had not been met. The units are valued in inventory at cost.

Productivity levels were reduced during the period in order to reduce the number of uninstalled modules on hand. Several projects have taken longer than originally expected to reach the installation stage due to the time required to complete the pre-installation processing of the contracts. During the nine months ended April 30, 1972, modules for five projects (489 dwelling units) which were included in current and prior period sales have been re-assigned to new projects which are expected to reach the installation stage in advance of the original projects.

Recent experience has indicated that modules which have been stored for extended periods prior to installation require refurbishing at the Company's expense. Cost of sales, manufacturing division, includes refurbishing and staging expenses of approximately \$2,400,000 plus a reserve for future refurbishing in the amount of \$5,000,000. Idle plant expenses approximating \$400,000 incurred during a six-week factory shutdown period are also included in manufacturing cost of sales.

Installation costs recognized and accrued by the Company include approximately \$9,700,000 of charges arising from revisions of estimates, delays, engineering and other difficulties.

Termination of our contract with the U.S. Department of Housing and Urban Development to construct a high-rise building in Memphis, Tennessee for Operation Breakthrough also caused an increase in installation costs of sales in the amount of \$822,000 for development and construction costs written off during the period.

An allowance for doubtful accounts in the amount of \$1,619,000 was established during the period based on a review and aging of pending changeorder, claim and retainage account receivable balances. Other significant increases in administrative and selling expenses were due to the development of new markets such as the concrete and steel patio home and high-rise systems.

C. Sales of Unregistered Securities

(Debt or Equity)

1. On February 7, 1972, the registrant sold 2,000 shares of common stock.
2. The market price on the date of sale is inapplicable.
3. No brokers were involved in the transactions. The shares were sold to an employee of the registrant pursuant to its Qualified Stock Option Plan.

Government's Exhibit 22

STIRLING HOMEX CORPORATION

42747

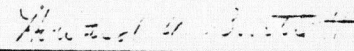
Notes to Form 10-Q

4. The offering price was \$3.00 per share. There were no underwriting discounts, brokerage commissions or finder's fees. The shares were sold at the offering price for cash.
5. Exemption is claimed in reliance upon Section 4 (2) of the Securities Act of 1933 as amended.
6. The shares have been legended and stop-transfer instructions given in connection therewith.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIRLING HOMEX CORPORATION

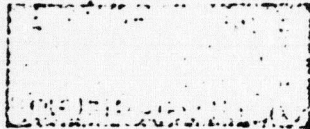
By



Howard A. Bartlett
Controller

Date June 14, 1972

Government's Exhibit 55 A



1150 EAST RIVER ROAD AVON, NEW YORK 14414 (716) 5...-2481

July 9, 1971

Securities and Exchange Commission
Washington, D. C. 20549

Attention Howard Hodges

Re: Stirling Homex Corporation
Filing No. 2-40122

Dear Mr. Hodges:

At the conference held on June 7, 1971 two basic issues concerning the Registrants financial reporting were discussed:

- (1) The method utilized for the recognition of income in connection with the sale of modules.
- (2) The sale of land during the current fiscal year.

Enclosed is a memorandum setting out in detail the facts and the logic upon which the Company has based its method of reporting in respect of these issues.

Yours very truly,

E. J. Schulz

E. J. Schulz
Vice President
& Controller

301295

cc: Krege Christianson

'Government's Exhibit 55 A

Recognition of Income on Sales of Modules

Stirling Homex Corporation, among other things, is engaged in two identifiable activities. One of these activities is the manufacture of housing units under factory production methods and techniques; the other is the installation of this manufactured product at the customer's location.

Substantially, all of the Company's sales to date have been sales to local housing authorities, non-profit sponsors, and a private university under Federally assisted housing programs. The Company sells its product and its services under several forms of contracts depending on the marketing conditions, which are generally related to the Federal funding program under which the units are sold.

Form 1

The Company may enter into "turnkey" contracts. These provide for payment only upon the completion of all work and the transfer of the project to the purchaser.

Form 2

Contracts for sales of modules only.

Form 3

Contracts for the sale of modules and related installation services. These may or may not provide for progress payments as the various phases of the installation and manufacturing processes are completed.

It should be noted that all the above types of contracts have historically been largely with customers who have participated in Federally sponsored programs. The payment of the obligations arising from such contracts either have been provided by funds of the Federal government directly, or have been provided on the strength of guarantees by the Federal government.

The Company publishes a standard module price list which is integrated into some contracts as a specific item. Terms are f.o.b. Avon, New York. In other contracts, the modules, while not designated in the contract, form a separate part of the proposal which is submitted to the local sponsor. Regardless of the form the contract ultimately assumes, the price for the module does not vary with the type of the contract, but is uniform for all customers. The only variance that does occur is when the Company from time to time, as circumstances indicate, changes its published price list. These changes are uniform for all customers during a given time frame, and proposals do not grant differentials to any customer or series of customers within the period.

It is of some importance to understand the methods by which the Company operates in the public housing sector. Under the Federal turnkey program, which pertains to almost all of the Company's efforts during the year and nine months ended April 30, 1971,

local housing authorities advertise and solicit proposals from developers for a specific number of dwelling units to be located either on the site already owned by the local housing authority or on a site to be selected by the developer with the approval of the local housing authority. The Company then submits to the local housing authority a proposal specifying the number of dwelling units to be sold. The dwelling units consist of a specific number of modules of a specific type, and the unit and total price of each module is indicated in the proposal. As noted previously, these prices are standard prices conforming to the published price lists and promotional literature which the Company uses in its marketing efforts. The Company submits its proposal after determining the feasibility of the site selected by the local housing authority or after finding its own site.

The housing authority then reviews all the proposals submitted by the various developers and awards the contract to one developer by means of a letter of designation. This letter of designation identifies the substance of the understanding between the parties. It also contains the identification of the Federal program under which the project is funded, and represents a commitment of those Federal funds to payment of the costs of the specific project. When the Company receives the letter of designation, it assigns to that project a specific contract number. From that

point on, all costs and expenses are accumulated by contract both for the module sales and for the installation and other ancillary work with respect to the installation of modules. With minor variance, this procedure was also followed by the Rochester Institute of Technology under another Federal program.

At this point the local housing authority or other customer is committed to complete the project under the terms outlined in the Company's proposal and confirmed by the authority or other customer generally in the letter of designation. At the first stage of manufacture, which is the floor frame, a contract number is assigned both internally in the records and physically attached to the specific module manufactured. This contract number remains with the module which is assigned and designated for that specific job, throughout its entire manufacturing process. At the completion of the manufacturing process the specific module is wrapped, placed in the yard for storage until shipped to the job site or other assembly area. While in the yard, the location of the specific module is maintained in the internal records of the Company. Accordingly, from the time a module enters the manufacturing flow, through the time it moves into the yard, and to the time it is moved to the job site, that module is specifically identified with a specific project.

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Since the Company employs production line manufacturing techniques, the Company will schedule long production runs of a specific type of module in order to insure the lowest operating cost and maximum operating efficiency of the plant. Accordingly, in any day's production run, modules may be manufactured for more than one project. In addition, the entire module requirement for a specific project will in all probability be manufactured over a series of production runs rather than within one single production run. This sequence of manufacturing events is necessitated by the aforementioned requirement to maintain levels of production efficiency.

The objective in the determination of an accounting policy must be one that matches cost with revenues and reflects the results of operations most clearly for the accounting period upon which the Company issues its financial statements. This accounting objective is the basis for the construction of generally accepted accounting principles. With this objective in mind, the Company has elected the following method of recognizing income on manufactured modules.

When the following conditions have been met, the Company records as sales and charges costs with the related costs of modules manufactured.

1. The Company must be designated by the local housing authority, non-profit sponsor or other agencies as the contractor for the project. This designation is supported by a formal commitment from the customer to the Company.
2. The customer must have obtained and submitted evidence to the Company that a commitment of monies to fund the project has been obtained from the appropriate governmental agency under which the project has sponsorship.
3. The numbers and types of modules and the general site plan and improvements must be identified and be the subject of the agreement between the Company and its customers.
4. The Company must assign the manufactured module to a specific project and physically identify the module as being assigned to and reserved exclusively for that specific project and customer. (At the present time this identification is physically attached at the earliest stage of the manufacture of the module.)
5. The module must be completed and be ready for shipment to the customer.

When all these events have occurred, and only when all these events have occurred, does the Company recognize income. This recognition

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of course, pertains only to the modules manufactured, and not to the installation and site work to be performed.

As indicated in the prospectus, there are other actions which the Company and its customers must take, but these actions are not critical to the recognition of income. They are as follows:

1. Final Site Selection

The Company usually has two or more sites under option or identified and has never experienced difficulty in clearing the sites. This is applicable only in those circumstances where the local housing authority or other customer has not acquired the sites and requires the Company to acquire the sites.

2. Building Permits

Before construction and installation can commence, a building permit is usually required. While formal permits may not be issued, the manufactured product has generally been precleared, and in addition the Company has never experienced difficulty in obtaining a permit.

3. Final Acceptance

Certificate of occupancy, acceptance by the local housing authority and final approval by the funding agency are required and have been obtained in all cases. The Company anticipates no problems in obtaining such final clearance

in the future.

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It must be appreciated that the customer has a firm commitment for his funds under an approved program of a governmental agency before any income is recognized by the Company. Therefore, there is no problem with respect to collectability of the amounts. As indicated previously, the performance of the Company in the past, its organization at present, and the inconsequential nature of the remaining approvals at the time the Company recognizes income lends additional support to the position that all critical events necessary to recognize income on the manufactured product have been complied with. It is at this point in the operation where the efforts expended in terms of the marketing activities, the general and the administrative activities, and the manufacturing activities clearly indicate that income has been earned and should be recognized. If income were to be recognized at any earlier point in time, there would not be appropriate matching of revenues with costs, nor of revenues and costs with current operations. The same is true if the income on the manufactured module were recognized at a later point in time.

The installation and site development activities of the Company, as distinguished from manufacturing, are conducted through an organizationally separate operating division. Statistics with respect to operating results are maintained for this division in the internal accounting routines.

Site installation process consists primarily of grading, foundation, development, installation, mechanical connections and trim, parking and sidewalk, and landscaping. The site installation process has been substantially systematized because of the standard product to be installed. The Company knows very precisely the amount of effort necessary to complete the major portions of any given project.

One of the key operating characteristics of the Company is the fact that its manufactured product has been standardized to the maximum degree possible. Materials, manufacturing techniques, interchangeability of the components within the module, and all other standardization techniques that can be identified have been built into the manufacturing process. Similarly, the installation activities of the Company have been developed to the point where the site variables which a "stick builder" encounters have been all but eliminated from the Company's installation activities. The Company carefully evaluates all of the soil and terrain characteristics of the site upon which the modules are to be installed to insure that its standardized construction techniques for foundations and other mechanical on-site work can be applied. Before approving a site for installation, the Company obtains reports and documents in its files the suitability of a site for the specific construction activities which are necessary for the

effective installation of the modules. These screening activities have been conducted in the past, are being conducted currently, and it is the intention of the Company to continue to conduct these activities.

The Company has developed substantial experience with major contractors. It employs these contractors wherever possible, and has reduced site cost estimating to a relatively exact program. Regional variation of trade labor rates are recognized as part of the cost estimating system and construction cost risk is limited to changes in labor rates which exceed the Company's allowance for rate increases.

Only nominal amounts of materials are required for site construction and installation since the building has been almost totally completed in the factory. Additional materials are shipped to the site in the modules wherever required. Material requirements are limited to masonry, concrete, and paving products. These industries usually experience substantial price stability and the quantities of materials required are generally known very precisely with bid proposal plans.

Significant portions of site development work, such as road development and major utility installations, are paid for by the local community or the utility company. Therefore, the Company need not be concerned with cost over-runs in these areas.

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The Company has an extensive project cost control reporting system which provides weekly reports of budget variances, and project superintendents employed by the Company who have substantial experience in project control and have completed Company training programs.

The Company has been profitable in the past with its installation activities and has not sustained any losses on these activities. This profit has fallen within the boundaries estimated by the Company and it is its belief that its rate of profit is in excess of industry norms. This rate of profit is a direct result of the standardization techniques which the Company can employ and the "state of the art" which its product and installation activities enjoy.

It should be recognized that Federal administrative practice in the housing business in many instances requires a separate statement of prices for the distinct components of a development; e.g., buildings, site work, architectural fees, land cost, etc.

Accordingly, while the gross profit rate on modules varies from the gross profit rate on installation contracts, the Company has not in the past jeopardized the profit recognized on sales of modules by its installation activities and the probability that

the situation will continue borders on certainty. Exhibit A attached hereto displays sales and profits statistics with respect to the Company's manufacturing and installation divisions.

The Company is aware, and has disclosed in its prospectus, that there is a lag between the time of reporting the income on the manufactured product, and the time when cash collections for that manufactured product have historically been received. We do not believe, however, that this event (cash receipts) is a critical factor with respect to the recognition of income.

It should also be recognized that the extension of credit is a competitive and marketing necessity in modern day business. It should also be recognized that certain of the programs under which Federal funding is provided requires that the developer provide the credit until the completion of the project. These factors do not bear on the accounting consideration of when income is earned under the accrual methods of accounting, and should not be considered a critical event necessary for the recognition of income.

In conclusion, the Company has carefully studied the question of a point at which income is earned and has chosen the aforementioned method which it believes fairly matches income with the effort expended, and when the effort is expended. Accordingly, the Company recognizes income in accordance with generally accepted

accounting principles and its method has been consistently applied during the life of the Company.

SALES AND PROFITS STATISTICS
MANUFACTURING AND INSTALLATION DIVISIONS

	<u>Modules</u>			<u>Installation</u>			<u>Total - Modules and Installation</u>		
	<u>Sales</u>	<u>Profit After Tax</u>		<u>Sales</u>	<u>Profit After Tax</u>		<u>Sales</u>	<u>Profit After Tax</u>	
		Dollars	% To Sales		Dollars	% To sales		Dollars	% To Sales
Year Ended July 31, 1970	16,492,770	1,636,975	9.9	6,061,298	379,378	6.3	22,554,068	2,016,353	8.9
Nine Months Ended April 30, 1971	18,183,170	1,475,076	8.1	6,386,388	254,291	4.0	24,569,558	1,729,367	7.0

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Per your request the Company is including as supplemental information copies of typical contracts employed in the various programs. To assist you in your analysis we have outlined the pertinent points relative to each contract below:

CustomerComments

Sanford Housing Authority

- A. Funding - Federal grant under Turnkey program.
- B. Elements (Modules installation and ancillary costs) are not delineated in contract body but is in proposals and contract addendum.
- C. Time is not of the essence.
- D. No progress payments, payment upon completion.
- E. Completed 2nd quarter of 1971.

Akron Metropolitan
Housing Authority

- A. Funding - Federal grant under Acquisition program.
- B. Elements (Module vs. Installation and ancillary cost is delineated in contract.

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- C. Time is not of the essence.
- D. Modules are paid for within a
stated period after manufacture
and assignment. Installation
portion is paid upon completion.
- E. In process at 4/30/71.

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Recognition of Income - December, 1970 Sale of LandDescription of the Transaction:

On December 23, 1970 Kabeth Properties, Inc., a wholly owned subsidiary of Stirling Homex Corporation entered into a contract for the sale of certain realty to Route 57 & 31 Development Corp., a non-affiliated corporation. This initial agreement was amended on February 8, 1971 and again on February 11, 1971. The agreement and the amendments thereto were included as Exhibit XIII (c) to the Company's registration statement. The subject matter of the contract is approximately 145 acres of land located in Clay, New York. Of these 145 acres, approximately 32 acres have been taken by the State of New York under condemnation proceedings. The 32 acres condemned by the State of New York bisect the property leaving two remaining parcels of approximately 15 acres and 98 acres each.

The purchase price of the property is \$2,100,000 payable as follows: \$210,000 paid on December 30, 1970; \$25,000 paid on June 30, 1971; and \$25,000 payable on each December 30 and June 30, thereafter up to December 30, 1975 when any outstanding balance under the agreement is payable in full. In addition to these minimum payments, principal payments are accelerated on the occurrence of certain events which are as follows:

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1. Net proceeds from the condemnation award which is presently pending shall be applied against the purchase price. These net proceeds will range from a minimum of approximately \$250,000 to a maximum of approximately \$1,450,000. At the present time the State of New York has offered a minimum award of \$300,000. The claim against the State of New York is in the amount of \$2,130,175. Management of the Company is of the opinion that the amount will be in excess of \$300,000 and has been informed by the attorney who is processing the proceeding, that a gross award in the neighborhood of \$750,000 would appear to be attainable. The Company, however, has no assurance that the award will be in excess of the \$300,000 which has been offered by the State of New York. It should be noted that the land taken by the condemnation is not included on the Company's balance sheet.
2. In the event the purchaser requests conveyance of title to acreage which is the subject of this agreement, additional payments against the principal are required. Release of acreage shall be paid for at the rate of \$18,585 per acre with minimum release of 20 acres (\$371,700) for releases from the parcel containing 98 acres. With respect to the 15 acre parcel 5 acres may be released at the same price

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per acre or \$92,925 in total. With respect to the remaining 10 acres in the 15 acre parcel, title will be released only in the event of an application for an institutional construction loan for the installation of buildings and improvements for lease and usage by tenants in conformance with the development program.

3. If the purchaser sells the 15 acre parcel entirely for cash for use in conformance with the development program, the net proceeds of such sale, after attorneys fees and brokerage fees, must be applied against the principal due the Company. The total sale price applicable to this parcel must be in an amount which yields an average price of \$18,585 per acre.

The contract provides for interest to be paid at the annual rate of 4% commencing December 31, 1972, payable quarterly in installments beginning March 1, 1973.

Problem

The question has been raised as to whether profit should be recorded on this transaction at the stated date of sale (within the seven months ended February 28, 1971 and the nine months ended April 30, 1971).

The Company has considered all the factors contained in ASR 95 and is of the opinion that the transaction complies with the provisions of that release. For the following circumstances contained in that release, it is apparent from the agreement and the description of the transaction that the following circumstances are not present:

2. Substantial uncertainty as to amount of costs and expenses to be incurred.
5. Limitations and restrictions on the purchaser's profits and on the development or disposition of the property.
6. Simultaneous sale and repurchase by the same or affiliated interests.
7. Concurrent loans to purchasers.
9. Simultaneous sale and leaseback of property.

The remaining circumstances outlined in the Release may not be apparent and will be commented upon in the following paragraphs.

Substantial uncertainty as to amount of proceeds to be realized because of form of consideration or method of settlement, e.g. non recourse notes, non-interest bearing notes, purchaser's stocks, and notes with optional settlement provisions, all of indeterminable value.

The obligation of the purchaser does not limit the Company's rights of recourse against the general assets of the purchaser, no part of the payment is in the form of the purchaser's stock and there are no optional settlement provisions in the agreement. Although the selling price under the terms of the contract was \$2,100,000, the Company recognized the fact that the interest rate under the terms of the contract was not comparable to rates appropriate under the circumstances, and therefore imputed interest in the amount of \$277,277 and reduced the selling price for the purposes of computing gain or loss. The prospectus indicates that the company realized a gain during the aforementioned period in the amount of \$566,000 (net of federal income taxes). Federal income taxes have been computed at the normal rate since the Company considered that this was not a capital gain transaction. Accordingly, the Company is of the opinion that the Purchasers obligation is reflected in the Company's financial statements at a value which provides for a reasonable rate of interest.

Retention of effective control of the property by the seller.

While the Company has retained legal title to the property, the purpose of this retention of legal title was to provide security to the Company for its receivable from the purchaser. An alternative to this form of security is a real estate mortgage. However, the Company has been advised that in order to effect its security in the event of default, higher costs would be incurred as a re-

sult of the foreclosure process than would be as a result of retention of legal title. Accordingly, this form of security was elected by the Company. The critical factor, however, is not necessarily the retention of legal title, but rather, that full ownership rights to the property have been transferred to the purchaser. Other than the retention of title, which was not designed to restrict either the purchaser's profits or his method of development or disposition of the property, Stirling Homex Corporation has placed no limitations or restrictions on the purchaser's operations.

Small or no down payment

The following factors are presented to demonstrate that payments received to date and due within the reasonably foreseeable future represent a substantial commitment on the part of these purchasers:

1. The initial down payment of \$210,000 represented 10% of the stated selling price of the property. After deducting the imputed interest mentioned previously, that down payment represents 11 1/2% of the total contract price as reflected in the statement of earnings. No portion of this down payment or any other payments against principal have been or can be characterized as prepayments of interest but are, purely and simply, a payment against the principal of the agreement.

2. The agreement calls for additional principal payments of \$25,000 semi-annually commencing June 30, 1971. The principal payment due on June 30, 1971 was paid and received by the Company on or before that date.
3. The Company is entitled to and will receive the net proceeds of the condemnation award which as noted previously should range from a minimum of approximately \$250,000 to a maximum of approximately \$1,450,000, with a reasonable estimation of the proceeds in the range of approximately half a million dollars.

It is our view that the principal payments received to date (\$235,000) plus the minimum condemnation award from the State of New York (\$250,000) represent a substantial commitment by the developer towards the development of the property. These payments represent approximately 23% of the stated selling price and 26% of the selling price after imputing interest. In either event, the Company believes that this represents a significant and substantial commitment on the part of the purchaser to complete the development of the property in an orderly fashion.

Evidence of financial weaknesses of the purchaser

The purchaser is a corporation which was formed for the specific purpose of acquiring this property from the Company. We were

informed that \$250,000 cash was put into the purchasing corporation by its stockholders. Of that initial amount, \$210,000 was employed to make the initial down payment mentioned previously, and an additional \$25,000 was employed to make the payment against the principal amount of the note which was due on June 30, 1971. The principals in this corporation individually have net worths which are in six figures. We have been further informed that the parents of the purchaser have had previous successful experience in real estate developments in the immediate geographic area surrounding the land sold under this contract.

A copy of the purchasers unaudited financial statements as of May 31, 1971 is attached hereto.

A copy of the personal financial statements of the three stockholders of the purchaser are attached hereto.

Other considerations

Other facts and considerations relate to the bona fide nature of this transaction:

A. The purchaser has caused a preliminary development program to be initiated with respect to the development of the property. A copy of this report is attached hereto. This report supports the viable nature of the transaction and the economic feasibility of the development to the purchasers.

" Additional corroborating evidence of the economic value of the transaction was received by the Company subsequent to the date of the transaction. While this information, was neither employed nor available at the date judgment on the transaction was passed, it lends additional credibility to the bona fide nature of the transaction. This evidence is a letter dated June 28, 1971 addressed to Mr. David Stirling, Jr., Chairman of the Company and is attached hereto. The substance of this letter is to identify the commercial feasibility of the development of this land.

Conclusion

We are of the opinion that both the substance and the spirit of ASR 95 has been complied with. At the recent conference with members of the staff of the Commission, a request was made to demonstrate that the purchaser has a substantial commitment to complete the orderly development of the property. We believe that the payments made to date and the plans made by the purchasers demonstrate a serious purpose on his part. We are also of the opinion that the reasonably foreseeable collections against principal (viz. the condemnation award) are a further indication of a continuing commitment. The recent interest evidenced in the property by other commercial developers and the past experience of the principals of the purchaser in commercial development of

real estate indicate that commercial development of the property is economically feasible. These facts and circumstances negate the possibility that the purchasers merely acquired an option whereunder they might benefit by a future rise in the value of the property. The purchasers have made plans for development and have made substantial cash payments to the Company which far exceed payments usually made in connection with options to acquire land. In addition, the semi-annual minimum payments against principal provide for a continuing commitment on the part of the purchaser. If any of the payment terms are in default, the Company may retain all payments as liquidated damages and reclaim the property. Because of the significant amount of these payments, the transaction should not be construed as merely an option.

The Company believes that its financial statements presented in the Registration Statement properly reflect the results of this real estate transaction in accordance with generally accepted accounting principle consistently applied.

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Ordinary Nature of Net Income from Land Sale

The Registrant does not believe that the results of operations for the year ended July 31, 1969, the seven months ended February 28, 1971, and the nine months ended April 30, 1971, would be fairly presented if net income from land sales was treated as an extraordinary item. Paragraph 21 of APB Opinion No. 9 indicates, in part, that the effect of a transaction or event which takes place during the current period, which is of an extraordinary nature and of a material amount, should be segregated in a statement of operations. Such transaction or event is identified by the nature of the underlying occurrence and is of a character significantly different from the typical or customary business activities of the entity. These events would not be expected to recur frequently and would not be considered as recurring factors in any evaluation of the ordinary operating processes of the business.

It is the Registrant's view that its land sales to date, in light of its limited existence, have been recurring and can be expected to recur in the future. The consolidated balance sheets as of February 28, 1971, and April 30, 1971, show land held for development or sale as an item of inventory among current assets. It is expected that substantially all such land will be sold in the future although the Registrant does not anticipate that land sales will be a significant part of its business. With respect to

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the Registrant, it is believed that such transactions should be viewed as of a character typical of its customary business activities.

It should be noted that, for tax purposes, the Registrant reports profits on sales of land as ordinary income, not as capital gains.

Also, attention is called to the Registrant's previous effective Registration Statement, dated February 19, 1970, in which the sale of land was reported as part of ordinary operations. (Additional reference: Letter dated February 5, 1970, from Mr. Lloyd M. Dollet, Branch Chief, to Mr. Harold Yanowitch, page 9, paragraph 2).

Based on the foregoing, the Registrant believes that its results of operations with respect to land sales are properly presented for purposes of evaluating the ordinary operating processes of its business. However, the Registrant would agree that for clarity and, in view of the expected future decline in significance of such transactions, that it may be appropriate to reclassify land sales and related costs of land sold in the consolidated statement of income as requested by the Division, but that such presentation be viewed as "other income" and be keyed to note (B) to the consolidated statement of income.

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CONSOLIDATED STATEMENT OF INCOME

The following Consolidated Statement of Income of Sterling Homes Corporation and consolidated subsidiaries has been examined as to the two years ended July 31, 1970 by Harris, Kerr, Forster & Company, independent certified public accountants, as set forth in their report appearing elsewhere in this Prospectus. It should be read in conjunction with the other financial statements (including the financial statements examined by Peat, Marwick, Mitchell & Co., independent certified public accountants as set forth in their report appearing elsewhere in this Prospectus) and the related notes included in this Prospectus. With respect to the figures for the nine month periods ended April 30, 1970 and 1971 which are unaudited, the management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim periods have been included.

	Year Ended		Nine Months Ended	
	July 31, 1969	July 31, 1970	April 30, 1970 (Unaudited)	April 30, 1971 (A) (Unaudited)
Revenues:				
Sales—trade (Notes 3 and 4) (B)	\$3,498,713	\$22,074,127	\$14,525,207	\$24,569,553
Sales to affiliates	6,140,338	459,941	459,941	—
Equity in undistributed net income of finance subsidiary (Note 1)	—	—	—	84,434
Total revenue	<u>\$9,639,051</u>	<u>\$22,534,068</u>	<u>\$14,985,238</u>	<u>\$24,653,987</u>
Costs and expenses:				
Cost of sales (Notes 3 and 4)	\$6,859,895	\$15,159,715	\$9,487,649	\$17,222,864
Administrative and selling expenses	701,157	2,390,601	1,623,365	2,311,343
Interest—long term debt	48,420	9,165	8,786	21,343
—other	26,342	639,016	430,522	1,240,266
Total costs and expenses	<u>\$7,635,814</u>	<u>\$18,198,507</u>	<u>\$11,550,322</u>	<u>\$20,795,816</u>
	<u>1,973,237</u>	<u>4,335,561</u>	<u>3,434,916</u>	<u>3,858,171</u>
OTHER INCOME:				
<i>SALES of Land (Long term in 1969; 0.0% in 1971) (Note 4) (B and F)</i>	<u>425,956</u>	—	—	<u>1,149,706</u>
Income before Federal and state income taxes	<u>\$ 2,367,193</u>	<u>\$ 4,355,561</u>	<u>\$ 3,434,916</u>	<u>\$ 4,952,885</u>
Income taxes (Note 9):				
Federal—current	\$ 730,554	\$ 1,757,513	\$ 1,423,465	\$ 1,483,754
—deferred	422,343	317,386	265,714	662,406
State—current	112,658	208,469	170,816	274,676
—deferred	51,157	37,011	37,959	122,930
	<u>\$ 1,316,712</u>	<u>\$ 2,320,379</u>	<u>\$ 1,897,954</u>	<u>\$ 2,543,766</u>
Net income(B)	<u>\$ 1,050,481</u>	<u>\$ 2,035,182</u>	<u>\$ 1,536,962</u>	<u>\$ 2,409,119</u>
Average shares outstanding(C)	<u>8,025,432</u>	<u>8,649,483</u>	<u>8,566,844</u>	<u>8,891,760</u>
Earnings per common share(C)	<u>\$.13</u>	<u>\$.24</u>	<u>\$.18</u>	<u>\$.27</u>

NOTES:

(A) The results for the nine months ended April 30, 1971 should not necessarily be considered indicative of the results for the year ending July 31, 1971.

(B) Sales-trade for the year ended July 31, 1969 and for the nine months ended April 30, 1971 include sales of land held for development in the respective amounts of \$750,000 and \$1,822,723, resulting in net income therefrom of approximately \$187,000 and \$556,000, or \$.02 per share and \$.06 per share, respectively. See Note 4 of Notes to Consolidated Financial Statements.

(C) Earnings per common share are based upon the weighted average number of shares outstanding during the periods presented after giving retroactive effect to the four-for-one stock split effected in February, 1970. Stock options outstanding during these periods have not been included in this computation since the effect of their inclusion would be insignificant.

(D) Numerical note references are to Notes to Consolidated Financial Statements.

The initial annual dividend requirement on the Preferred Stock offered hereby will be \$

GOVERNMENT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

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Id.

December 31

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250,000

TO PAY TO THE ORDER OF FIRST NATIONAL BANK OF ROCHESTER AT ITS OFFICE IN ROCHESTER, NEW YORK THE SUM OF
Two Hundred-Fifty Thousand

WITH INTEREST AT THE RATE OF 8 1/2 % PER ANNUM, AND TOGETHER WITH ANY COSTS OF COLLECTION, INCLUDING A REASONABLE ATTORNEY'S FEE IN THE EVENT THIS OBLIGATION IS NOT PAID WHEN DUE.

Any holder may declare this note to be immediately due and payable whenever the holder has a right to do so under any security agreement or other agreement now or hereafter in effect pursuant to which payment of the indebtedness hereby represented is secured. This note and all obligations of any maker or endorser hereof shall become immediately due and payable without notice or demand upon the occurrence, with respect to any maker or endorser named, of any one of the following events: nonpayment when due, whether by acceleration or otherwise, of any indebtedness; or default in the performance of any obligation, term or condition of any agreement or any other agreement with respect to nonpayment when due of any tax imposed on either bankruptcy or marital status under the Bankruptcy Act or any law for the relief of debtors; the commitment of any act of bankruptcy or nonpayment when due of any tax imposed on either trust for them or their property; collapse of a meeting of creditors for the relief of debtors; the commitment of any act of bankruptcy or nonpayment when due of any tax imposed on either theft, substantial damage, destruction, sale or encumbrance of goods, disposition, bulk sale, termination of any general assignment for the benefit of creditors or the appointment of a receiver; assignment, mortgage or pledging of any accounts receivable or other collateral, failure to pay debts as they mature; failure to maintain corporate existence in good standing; dissolution; insolvency or credit reorganization; or failure, after demand, to furnish financial information or permit inspection of their affairs so changes as the assignee deems warranted; or event made heretofore or hereafter, after demand, to furnish financial information or permit inspection of their affairs so changes as the assignee deems warranted; or agreement to Bank to extend any maturity or to enter into this or any other agreement or otherwise (including without limitation representations and warranties contained herein) in connection with the execution of this agreement there shall have been no substantial change in any of the financial condition of said debtor or such endorser, grantor or other party; or if any court in its exercise of jurisdiction over the assets of the debtor or such endorser, grantor or other party shall not have been ordered to Bank at or prior to the time of such execution. Upon maturity or any such extension, interest rate may be changed by notice to the payee at the address as given to payee. The payee shall at all times have a lien on the deposit balances and other funds of any maker or endorser hereof, and may at any time and without notice apply the same against the payment of this note, whether due or not due. Payment of this note is also secured by collateral listed on the collateral records of the payee hereof.

NO. A083 X Route 57 E 21 D

NO. 4683

DUE
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Route 57 & 31 Development Corporation

Robert L. Frost

President

Government's Exhibit 57

99958

The undersigned (jointly and severally, if more than one), irrespective of the genuineness, validity, regularity or enforceability of this note, hereby endorse(s) this note and unconditionally guarantee(s) to any holder, the full and prompt payment of the indebtedness evidenced by this note when due by acceleration or otherwise and agree(s) to all the terms and conditions of this note. The undersigned expressly consent(s) that from time to time, without notice to the undersigned and without affecting any liability of the undersigned, any collateral for payment of indebtedness may be exchanged, released, surrendered, sold (whether on foreclosure or otherwise) or otherwise dealt with by any holder hereof; that any time of payment may be extended or accelerated in whole or in part; that this note may be renewed from time to time, in whole or in part, by this or separate agreement; that upon maturity (or at any time if this note be a demand note) the interest rate may be changed without notice. The undersigned waive(s) presentment, notice of dishonor and protest.

William J. Hoag Jr.
Harold L. ...
Carmen ...

4/24/72 50th - Lat 50 500,000 -
 5/10/74 100 ft 100,000.

Government's Exhibit 80

Kabeth Properties, Inc.

P.O. BOX 217 / AVON, NEW YORK 14414



September 4, 1969

Riverbend Estates, Inc.
c/o George Cook, III, Attorney
529 Fifth Avenue
New York, New York

43169

Gentlemen:

This will confirm the understanding between your company (Riverbend) and the undersigned company, Kabeth Properties, Inc., (Kabeth) as of this day relative to design, manufacture and construction of your project in Clay, New York.

- (1) Kabeth will enter into a contract for the design, manufacture and construction of 330 apartments upon a parcel of land conveyed to you on June 11, 1969, by Kece Associates, Ltd., in the Town of Clay, New York. The type of construction shall be similar to the modular units being manufactured at the time of the above contract by Stirling Homex Corporation (Homex).
- (2) The cost of the design and manufacture of the Homex units shall be at Homex's then published prices.
- (3) The cost of the erection of the Homex units and the cost of the site work for the proposed project shall be at the then agreed and reasonable price as the same shall be determined by the parties.
- (4) To the extent they are available, parties agree that Homex modules will be used exclusively for the construction of the 330 apartments.

Riverbend Estates, Inc. Government's Exhibit 80
c/o George Cook, III, Attorney

Page 2
September 4, 1969

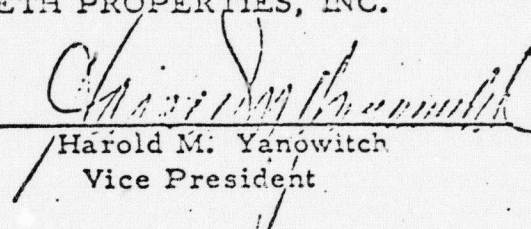
43170

- (5) This agreement, upon the part of Riverbend, is conditioned only upon Riverbend's obtaining financing of the project acceptable to Riverbend.
- (6) It is understood that the above contract shall be executed within 24 months from the date hereof, and upon execution of such agreement, construction will commence and be completed within a reasonable time thereafter, and this letter of intent shall be of no further force and effect.
- (7) Kabeth Properties, Inc., represents that it is a wholly owned subsidiary of Homex.

Would you kindly execute the memorandum of understanding herein upon the line provided for Riverbend's signature indicating acceptance of the terms herein.

Very truly yours,

KABETH PROPERTIES, INC.

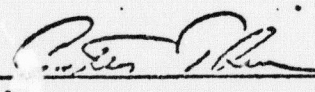
By: 

Harold M. Yanowitch
Vice President

HMY:ca

ACCEPTED BY:

RIVERBEND ESTATES, INC.

By: 

Date: Sept 15, 1969

Government's Exhibit 95C

RALPH KLONICK SONS, INC.

Realtors - Insurance -

601-623 BIGLEY TOWER BLDG.
 ROCHESTER, NEW YORK 14604
 AREA CODE 716 • 325-3800

September 30, 1970

SELLING

Houses
 Apartments
 Commercial
 Industrial
 Building Sites

FINANCING

First Mortgages
 Building Loans

APPRAISING

For Banks
 Institutions
 Individuals
 Government Agencies

LEASING

Realty
 Stores
 Offices
 Factories

MANAGEMENT

Houses
 Apartments
 Commercial

Mr. Paul Kuveke
 Stirling Homex Corp.
 Avon, N.Y.

Dear Sir:

Re: Syracuse, N.Y. Project

You have requested that I inspect the Hollywood project development located in the Town of Clay, N.Y.

The undersigned appraiser did investigate the area on September 29, 1970 for the purpose of determining the fair market value of two parcels of undeveloped land.

The Kece site consists of a parcel of approximately 12.379 acres which is zoned for high rise apartments. It is my opinion that the fair market value is Three Hundred Ten Thousand Dollars (\$310,000.), which is based on comparable sales of land in the general area.

The Rascac site, which for the most part is zoned commercial and consists of approximately 16.146 acres in two parcels, is valued at Four Hundred three thousand six hundred and fifty dollars (\$403,650.) This also is based on area comparable sales.

Further support for these statements of fair market value will be forthcoming.

Yours very truly,
 RALPH KLONICK SONS, INC.

BY Allan S. Klonick - Paul
 ALLAN S. KLONICK, APPRAISER

ASK:F

5262

Government's Exhibit 84

Peter Thun
21 Prospect Avenue
Port Washington, N. Y. 11050

Registered Mail
Return Receipt Requested

January 6, 1970

Mr. William G. Stirling
Hickory Hill
Avon, New York 14414

Dear Mr. Stirling:

Pursuant to our letter agreement, I am enclosing a Note in the amount of \$17,680 in payment for the 2.21% interest in Hollyrood Park Associates which you have sold to me as of January 1, 1970 pursuant to our earlier agreement. You hereby confirm that such partnership interest has been transferred to me as of January 1, 1970, and I shall be entitled to such benefits and obligations which that interest entails from that date. A bill of sale or other formal document of conveyance will be sent to you by separate letter.

Please acknowledge receipt of this letter by signing the enclosed copy and returning it to me.

Very truly yours,

Peter Thun

Enclosure

Received the _____
day of January 1970.

W.G. Stirling

JAN 9 - 1970

STATIONER

40357

Government's Exhibit 84

Peter Thun
21 Prospect Avenue
Port Washington, N. Y. 11050

Registered Mail
Return Receipt Requested

January 6, 1970

Mr. David Stirling, Jr.
Hickory Hill
Aven, New York 14414

Dear Mr. Stirling:

Pursuant to our letter agreement, I am enclosing a Note in the amount of \$17,680 in payment for the 2.21% interest in Hollyrood Park Associates which you have sold to me as of January 1, 1970 pursuant to our earlier agreement. You hereby confirm that such partnership interest has been transferred to me as of January 1, 1970, and I shall be entitled to such benefits and obligations which that interest entails from that date. A bill of sale or other formal document of conveyance will be sent to you by separate letter.

Please acknowledge receipt of this letter by signing the enclosed copy and returning it to me.

Very truly yours,

Peter Thun

Enclosure

Received the _____
day of January 1970.

✓ *David Stirling Jr.*

JAN 9 - 1970
Stirling & Associates

40356

Government's Exhibit 84

Peter Thun
21 Prospect Avenue
Port Washington, New York 11050

December 29, 1969

Mr. William G. Stirling
Hickory Hill
Avon, New York 14414

Dear Mr. Stirling:

Pursuant to our agreement of December 24, 1968, notice is hereby given of the purchase from you of a Two and Twenty-one One Hundredths Percent (2.21%) Interest in Hollywood Park Associates.

As you have agreed, the closing will take place as of January 1, 1970 and transfer of the interest will be effective on that date. A note of the Hollywood Park Associates which will be used to pay for the interest will be sent to you on January 2, 1970. After receipt of such payment, you agree to execute all necessary documents to transfer the above interest in the partnership to me effective January 1, 1970.

Very truly yours,

Peter Thun

40369

Government's Exhibit 84

Peter Thun
21 Prospect Avenue
Port Washington, New York 11050

December 29, 1969

Mr. David Stirling, Jr.
Hickory Hill
Avon, New York 14414

Dear Mr. Stirling:

Pursuant to our agreement of December 24, 1968, notice is hereby given of the purchase from you of a Two and Twenty-one One Hundredths Percent (2.21%) Interest in Hollywood Park Associates.

As you have agreed, the closing will take place as of January 1, 1970 and transfer of the interest will be effective on that date. A note of the Hollywood Park Associates which will be used to pay for the interest will be sent to you on January 2, 1970. After receipt of such payment, you agree to execute all necessary documents to transfer the above interest in the partnership to me effective January 1, 1970.

Very truly yours,

Peter Thun

40370

Government's Exhibit 86

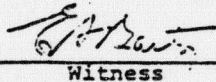
BILL OF SALE

I, WILLIAM G. STIRLING, in consideration of \$1, receipt of which is hereby acknowledged, and other good and valuable consideration, do hereby sell, convey, assign and transfer to HOLLYWOOD PARK ASSOCIATES, a New York limited partnership, all of my right, title and interest in and to all of my interest as a limited partner in HOLLYWOOD PARK ASSOCIATES, being a 5.5364% interest; do hereby relinquish to HOLLYWOOD PARK ASSOCIATES all of my rights and obligations as a limited partner as aforesaid; and do hereby acknowledge that all of my rights as a limited partner as aforesaid as of the date hereof have been satisfied by HOLLYWOOD PARK ASSOCIATES and that I have no claim against HOLLYWOOD PARK ASSOCIATES by virtue of my rights as a limited partner as aforesaid or by virtue of my transfer and relinquishment of my rights as set forth herein.

IN WITNESS WHEREOF, I have hereunto set my hand as of the 1st day of January, 1971.

Signed in the presence of:


William G. Stirling


Witness

40271

Government's Exhibit 86

BILL OF SALE

I, DAVID STIRLING, JR., in consideration of \$1, receipt of which is hereby acknowledged, and other good and valuable consideration, do hereby sell, convey, assign and transfer to HOLLYWOOD PARK ASSOCIATES, a New York limited partnership, all of my right, title and interest in and to all of my interest as a limited partner in HOLLYWOOD PARK ASSOCIATES, being a 5.5364% interest; do hereby relinquish to HOLLYWOOD PARK ASSOCIATES all of my rights and obligations as a limited partner as aforesaid; and do hereby acknowledge that all of my rights as a limited partner as aforesaid as of the date hereof have been satisfied by HOLLYWOOD PARK ASSOCIATES and that I have no claim against HOLLYWOOD PARK ASSOCIATES by virtue of my rights as a limited partner as aforesaid or by virtue of my transfer and relinquishment of my rights as set forth herein.

IN WITNESS WHEREOF, I have hereunto set my hand as of the 1st day of January, 1971.

Signed in the presence of:

Witness

David Stirling, Jr.
David Stirling, Jr.

40272

Government's Exhibit 86

AMENDMENT
TO
ARTICLES OF LIMITED PARTNERSHIP
HOLLYROOD PARK ASSOCIATES

AGREEMENT made as of January 1, 1970 amending
the Articles of Limited Partnership of HOLLYROOD PARK
ASSOCIATES.

WHEREAS, HOLLYROOD PARK ASSOCIATES has acquired
from WILLIAM G. STIRLING his full interest as a limited
partner in HOLLYROOD PARK ASSOCIATES; and

WHEREAS, HOLLYROOD PARK ASSOCIATES has acquired
from DAVID STIRLING, JR. his full interest as a limited
partner in HOLLYROOD PARK ASSOCIATES; and

WHEREAS, all of the partners of HOLLYROOD PARK
ASSOCIATES have consented to the withdrawal of WILLIAM G.
STIRLING and DAVID STIRLING, JR. as limited partners; and

WHEREAS, the partners wish to change the principal
office of the partnership; and

WHEREAS, the partners wish to amend the Articles
of Limited Partnership to reflect the above changes.

NOW, THEREFORE, it is hereby agreed:

1. Paragraph 1 of the Articles of Limited Partner-
ship is hereby amended to read as follows:

40273

Government's Exhibit 86

- 2 -

"1. General and Limited Partners. PETER THUN, of 335 Forest Valley Court, Atlanta, Georgia 30342, (herein sometimes called the "General Partner") shall be the General Partner.

DANIEL W. BOLLMAN, of Adamstown, Pennsylvania; FRED G. BOLLMAN, of 400 Pennsylvania Avenue, Shillington, Pennsylvania 19607; FERDINAND K. THUN, of 1601 Museum Road, Wyomissing, Pennsylvania 19610; THURSTON GREENE AND COMPANY, INCORPORATED, of 120 Wall Street, New York, New York 10005; JOHN H. MCORE, of Federal Twist Road, Stockton, New Jersey 08559; FERDINAND THUN, of 511 East Mt. Pleasant Avenue, Philadelphia, Pennsylvania 19119; and ANN F. CONNELLY, of 75 Oakview Terrace, Short Hills, New Jersey 07078, shall be limited partners. The liability of each of the limited partners shall be limited to his capital contribution under paragraph 6. The term "partners" as used in this Agreement, when not preceded by the word "limited", shall in all cases refer to the General Partner and all the limited partners."

2. Paragraph 4 of the Articles of Limited Partnership is hereby amended to read as follows:

"4. Principal Office. The location of the principal place of business is to be c/o Penscot Properties, Inc., P.O. Box M, Liverpool, New York 13088 or such other place in the State of New York as the General Partner may from time to time designate by written notice to each limited partner."

3. Paragraph 6 of the Articles of Limited Partnership is hereby amended to read as follows:

"6. Contributions. Each of the partners has contributed the amount set opposite his name below to the partnership capital and has acquired the percentage interest in the profits and losses of the partnership stated opposite the amount of his contribution:

40276

<u>General Partner</u>	<u>Contribution</u>	<u>Percentage Interest</u> <u>in Profits and Losses</u>
<u>Name</u>		
Peter Thun	\$350,000	45.9773%

Government's Exhibit 86

- 3 -

<u>Limited Partner</u>	<u>Contribution</u>	<u>Percentage Interest in Profits and Losses</u>
<u>Name</u>		
Fred G. Bollman	\$ 86,240	11.0202%
Ferdinand K. Thun	86,240	11.0202%
Thurston Greene & Co., Inc.	86,240	11.0202%
Daniel W. Bollman	100,000	10.2229%
John H. Moore	43,560	5.5664%
Ferdinand Thun	33,440	4.2732%
Ann F. Connelly	7,040	.8996%
	<u>\$802,560</u>	<u>100.0000%</u>

IN WITNESS WHEREOF, the parties hereto have
executed this instrument as of the day and year first above
written.

Address:

Atlanta, Georgia 30303

GENERAL PARTNER

Peter Thun

Address:

400 Pennsylvania Avenue
Shillington, Pennsylvania 19607

LIMITED PARTNERS

Fred G. Bollman

1601 Museum Road
Wyomissing, Pennsylvania 19610

Ferdinand K. Thun

120 Wall Street
New York, New York 10005

Thurston Greene & Company,
Incorporated

110 E. Main Street
Adamstown, Pennsylvania

Daniel W. Bollman

40275

Government's Exhibit 86

- 4 -

Federal Twist Road
Stockton, New Jersey 08559

John H. Moore

511 East Mt. Pleasant Avenue
Philadelphia, Pennsylvania 19119

Ferdinand Thun

75 Oakview Terrace
Short Hills, New Jersey 07078

Ann F. Connelly

Hickory Hill
Avon, New York 14414

WITHDRAWING PARTNERS

David Stirling, Jr.

Hickory Hill
Avon, New York 14414

William G. Stirling

40276

Government's Exhibit 86

STATE OF New York)
COUNTY OF Longue) ss.:

On the 16th day of March, 1971, before P.T.
me personally came Peter Thain, to me known
and known to me to be the individual described in, and who
executed the foregoing instrument, and he duly acknowledged
to me that he executed the same.

RUD SANDERSON
Notary Public in the State of New York
Appointed in _____ County
My Commission Expires March 30, 19 72

Rud Sanderson
Notary Public

STATE OF _____)
COUNTY OF _____) ss.:

On the _____ day of _____, 1971, before F.G.R.
me personally came _____, to me known
and known to me to be the individual described in, and who
executed the foregoing instrument, and he duly acknowledged
to me that he executed the same.

Notary Public

STATE OF _____)
COUNTY OF _____) ss.:

On the _____ day of _____, 1971, before F.H.T.
me personally came _____, to me known
and known to me to be the individual described in, and who
executed the foregoing instrument, and he duly acknowledged
to me that he executed the same.

Notary Public

RALPH KLONICK SONS, INC.

Realtors - Insurance

901-923 BILLY TOWERS BLDG.
 HOCHSTETTER, NEW YORK 10004
 AREA CODE 718 • 321-3800

September 20, 1970

SELLING

Houses
 Apartments
 Commercial
 Industrial
 Building Sites

FINANCING

First Mortgages
 Building Loans

APPRAISING

For Banks
 Institutions
 Individuals
 Government Agencies

LEASING

Realty
 Stores
 Offices
 Factories

MANAGEMENT

Houses
 Apartments
 Commercial

Mr. Paul Kuveke
 Stirling Homex Corp.
 Avon, N.Y.

Dear Sir:

Re: Syracuse, N.Y. Project

You have requested that I inspect the Hollyreed project development located in the Town of Clay, N.Y.

The undersigned appraiser did investigate the area on September 29, 1970 for the purpose of determining the fair market value of two parcels of undeveloped land.

The Kece site consists of a parcel of approximately 12.379 acres which is zoned for high rise apartments. It is my opinion that the fair market value is Three Hundred Ten Thousand Dollars (\$310,000.), which is based on comparable sales of land in the general area.

The Rasene site, which for the most part is zoned commercial and consists of approximately 16.146 acres in two parcels, is valued at Four Hundred three thousand six hundred and fifty dollars (\$403,650.) This also is based on area comparable sales.

Further support for these statements of fair market value will be forthcoming.

Yours very truly,
 RALPH KLONICK SONS, INC.

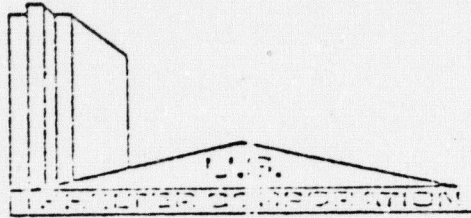
BY Allan S. Klonick
 ALLAN S. KLONICK, APPRAISER

ASK:F

5242

Government's Exhibit 98

80400



1150 EAST RIVER ROAD / AVON, NEW YORK 14414 / PHONE: 716-926-2481

January 5, 1970

Mr. W. E. Loebmann
President
First National Bank of Rochester
35 State Street
Rochester, New York 14614

Dear Dick:

I am enclosing the original signed financial statements on the three individuals. It will not be necessary for you to return the copies.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'C. W. Marshall'.

Charles W. Marshall

Enclosure

CWM/cml

Government's Exhibit 98

80401

HAROLD L. WYNN, JR.
 STATEMENT OF CONDITION
November 30, 1970

ASSETSCURRENT ASSETS

Cash on Hand	\$ 2,000.00	
Cash-Merchants National (checking)	7,000.00	
Cash-First Trust & Deposit (checking)	500.00	
Cash- Seneca Federal (Savings)	22,000.00	
Due from Empire Pipeline Corp.	61,000.00	
Miscellaneous Notes Receivable Scott, Carr, Murphy, Jiminez	3,400.00	
TOTAL CURRENT ASSETS		\$ 95,900.00

INVESTMENTS

Pollution Dynamics Common stock (cost) //	\$ 366.00	
Leder Hedge Common Stock (cost) //	666.00	
Fidelity Trend Common Stock (cost) //	12,500.00	
Putnam Equities & Vista Common stock (cost) //	12,500.00	
Traffic Council of America Common Stock & bonds //	5,000.00	
Cash Surrender Value Life Insurance (estimate)	4,000.00	
Coin collection (mkt)	500.00	
Pompey Hills Realty Corp Common Stock (cost)	18,750.00	
Seneca Properties Loans & Common Stock (Net book value)	19,905.00	
Monarch Soils, Inc., Loans & Common stock (Net book value) 10/31/69	3,659.00	
Wyncraft Leasing, Common stock (net book value) 10/31/69	2,823.00	
TOTAL INVESTMENTS		\$ 80,729.00

PARTNERSHIPS

Wynn, Grago, Grasso (capital)	\$ 2,599.00	
Wynn, Grago & Murphy, W. Monroe Property (mkt)	3,300.00	
Wynn, Grago, Mucedola & Cook, Cato Property (mkt)	1,700.00	
Wynn, Grago, Mucedola, N. Syracuse (mkt)	8,000.00	
Investment in W. G. G. Trust, Loans and Net Book Value	120,900.00	
TOTAL PARTNERSHIPS		\$136,499.00

OTHER ASSETS

Notes, Seneca Properties	\$ 20,000.00	
Notes, Pompey Hills Realty Corp.	18,300.00	
Mobile Home (cost)	14,500.00	
Personal Residence (cost)	250,000.00	
Building	40,000.00	
TOTAL OTHER ASSETS		\$342,800.00
TOTAL ASSETS		\$655,928.00

LIABILITIES AND CAPITALCURRENT LIABILITIES

Notes Payable - Merchants National Bank	\$101,875.00	
Mortgage - Seneca Federal Bank	98,000.00	
Notes, Monarch Soils Inc. 12/31/69	<u>39,750.00</u>	
TOTAL CURRENT LIABILITIES		\$239,625.00

CAPITAL

Net Worth - Harold L. Wynn, Jr.	<u>416,203.20</u>
TOTAL LIABILITIES & CAPITAL	<u>\$655,828.00</u>

Signed

Harold L. Wynn Jr.

Government's Exhibit 98

80403

FINANCIAL STATEMENT
As of October 15, 1970

CARMEN GRASSO
Attorney at Law

Residence - 113 Marangale Road, Manlius, N.Y.
Business - 647 South Warren St., Syracuse, N.Y.

A S S E T S

Cash on Hand		\$	300.00
Cash in Banks			
Onondaga County Savings Bank-savings account	\$	1,114.92	
Merchants Bank-checking accounts		<u>2,000.00</u>	
			3,114.92
Life Insurance (cash surrender value)			1,000.00
Partnership assets - Aloi, Grasso & Vecchio			35,000.00
Mortgage Receivable - 712 Park Avenue			2,000.00
Notes Receivable			30,000.00
Securities - Readily Marketable			
500 shares Kearney-National		3,000.00	
Putnam Equities		350.00	
Tudor Hedge Fund		666.00	
International Book		400.00	
Energy Minerals		175.00	
Modular Concepts		<u>2,500.00</u>	
			7,091.00
Securities - Closely Held Corporations			
647 South Warren Street Realty Corp.	(25)	15,000.00	
Pompey Hills Realty Corp.	(9000)	18,000.00	
Egret Profit Sharing Corp.	(100)	1,400.00	
Egret Services, Inc.	(400)	1,600.00	
Delcar Realty Corp.	(100)	15,000.00	
Lease Equipment Ltd.	(12)	73,000.00	
Auburn Inn, Inc.		<u>6,833.00</u>	
			130,833.00
Real Estate-Owned Individually & partnership			
6405 Seneca Trpk.-one-family res.-rented		35,000.00	
113 Marangale Road - home		70,000.00	
300-acre farm-Pompey Estates (large home, barns and land - 20% interest)		14,000.00	
Fulton property (home & 6 acres comm. prop)		3,000.00	
Grand Ave. property (3 1/2 acres-1/20 int.)		400.00	
Camillus - 96 acres - 1/8 interest		15,000.00	
Phoenix - land & home - 1/6 interest		18,000.00	
Berkshire Realty - 1/6 interest		<u>20,000.00</u>	
			176,400.00
Automobile - 1968 Dodge			2,000.00
Furniture & fixtures - Home and office			<u>12,000.00</u>
Total Assets			<u><u>\$399,733.92</u></u>

Government's Exhibit 98

CARMEN GRASSO

80404

L I A B I L I T I E S

Notes Payable to banks - Unsecured	\$ 2,536.00
Real estate Mortgage Payable - Fulton Savings	20,000.00
Real estate Mortgage payable - Onondaga County Savings	<u>40,000.00</u>
Total Liabilities	62,536.00
Net Worth	<u>337,202.92</u>
Total Liabilities & Net Worth	<u><u>\$399,738.92</u></u>

Signed

Carmen Grasso

Government's Exhibit 98

80405

WILLIAM J. GRAGO, JR.
 STATEMENT OF CONDITION
November 30, 1970

ASSETSCURRENT ASSETS

Cash on Hand	\$ 750.00	
Cash-Merchants National (checking)	1,000.00	
Cash-Seneca Federal (Savings)	2,000.00	
Due from Empire Pipeline Corp.	32,000.00	-
Cash-Onondaga Savings	3,000.00	
Cash-Merchants National (savings)	14,000.00	
TOTAL CURRENT ASSETS		\$ 52,750.00

INVESTMENTS

Liberty Bond Common Stock (cost) //	\$ 12,500.00	
Pollution Dynamics Common Stock (cost) //	366.00	
Tudor Hedge Common Stock (cost) //	666.00	
Petram Equities & Vista Common stock (cost) //	12,500.00	
Cash surrender value life insurance (estimate)	2,200.00	
Coin collection (mkt)	1,500.00	
Pompey Hills Realty Corp common stock (cost) C	6,250.00	
Seneca Properties loans and common stock C (net book value)	7,026.00	
Monarch Soils, Inc., Loans and common stock (net book value) 10/31/69	2,722.00	
Wynecraft Leasing, Inc., common stock C (net book value) 10/31/69	960.00	
American Telephone & Telegraph common stock (mkt)	2,200.00	//
Dyna Logics common stock (cost)	500.00	//
TOTAL INVESTMENTS		\$ 49,390.00

PARTNERSHIPS

Wynn, Grago, Graso (capital)	\$ 2,599.00	
Wynn, Grago, & Murphy, W. Monroe Property (mkt)	1,650.00	
Wynn, Grago, Mucedola & Cook, Cato property (mkt)	1,700.00	
Wynn, Grago, Mucedola, No. Syracuse (mkt)	4,000.00	
Investment in W.G.G. Trust, Loans & Net book value	89,000.00	
TOTAL PARTNERSHIPS		\$ 98,949.00

OTHER ASSETS

Notes, Pompey Hills Realty Corp.	\$18,000.00	
Personal Residence	30,000.00	
Notes, William J. Grago, Sr.	7,500.00	
Other Notes Receivable	1,000.00	
Jewelry & video tape equipment	2,500.00	
Notes, William H. Wynn	21,500.00	
TOTAL OTHER ASSETS		\$ 80,500.00
TOTAL ASSETS		<u>\$281,589.00</u>

80406

LIABILITIES AND CAPITALCURRENT LIABILITIES

Notes Payable - Merchants National Bank	\$ 10,625.00	
Notes - Monarch Soils, Inc. 12/31/69	7,250.00	
Onondaga Savings Bank - Mortgage	14,000.00	
Notes Payable-Merchants National Bank	<u>21,500.00</u>	
TOTAL CURRENT LIABILITIES		\$ 53,375.00

CAPITAL

Net Worth - William J. Grago, Jr.		<u>228,214.00</u>
TOTAL LIABILITIES AND CAPITAL		<u>\$281,589.00</u>

Signed

Wm. J. Grago Jr.

Government's Exhibit 98

80407

FINANCIAL STATEMENT
As of October 15, 1970

CARMEN GRASSO
 Attorney at Law

Residence - 113 Marangale Road, Manlius, N.Y.
 Business - 647 South Warren St., Syracuse, N.Y.

A S S E T S

Cash on Hand		\$ 300.00
Cash in Banks		
Onondaga County Savings Bank-savings account	\$ 1,114.92	
Merchants Bank-checking accounts	<u>2,000.00</u>	3,114.92
Life Insurance (cash surrender value)		1,000.00
Partnership assets - Aloi, Grasso & Vecchio		35,000.00
Mortgage Receivable - 712 Park Avenue		2,000.00
Notes Receivable		30,000.00
Securities - Readily Marketable		
500 shares Kearney-National	3,000.00	
Putnam Equities	350.00	
Tudor Hedge Fund	666.00	
International Book	400.00	
Energy Minerals	175.00	
Modular Concepts	<u>2,500.00</u>	7,091.00
Securities - Closely Held Corporations		
647 South Warren Street Realty Corp. (25)	15,000.00	
Pompey Hills Realty Corp. (9000)	18,000.00	
Egret Profit Sharing Corp. (100)	1,400.00	
Egret Services, Inc. (400)	1,600.00	
Delcar Realty Corp. (100)	15,000.00	
Lease Equipment Ltd. (12)	73,000.00	
Auburn Inn, Inc.	<u>6,833.00</u>	130,833.00
Real Estate-Owned Individually & partnership		
6405 Seneca Tnpk.-one-family res.-rented	36,000.00	
113 Marangale Road - home	70,000.00	
300-acre farm-Pompey Estates (large home, barns and land - 20% interest)	14,000.00	
Fulton property (home & 6 acres comm. prop)	3,000.00	
Grand Ave. property (3 1/2 acres-1/20 int.)	400.00	
Camillus - 96 acres - 1/8 interest	15,000.00	
Phoenix - land & home - 1/6 interest	18,000.00	
Berkshire Realty - 1/6 interest	<u>20,000.00</u>	176,400.00
Automobile - 1968 Dodge		2,000.00
Furniture & fixtures - Home and office		<u>12,000.00</u>
Total Assets		<u>\$399,733.92</u>

CARMEN GRASSO

Government's Exhibit 98

80408

LIABILITIES

Notes Payable to banks - Unsecured	\$ 2,536.00
Real estate Mortgage Payable - Fulton Savings	20,000.00
Real estate Mortgage payable - Onondaga County Savings	<u>40,000.00</u>
Total Liabilities	62,536.00
Net Worth	<u>337,202.92</u>
Total Liabilities & Net Worth	<u><u>\$399,738.92</u></u>

Signed

Carmen Grasso

Government's Exhibit 98

HAROLD L. WYNN, JR.
STATEMENT OF CONDITION
November 30, 1970

80409

ASSETSCURRENT ASSETS

Cash on Hand	\$ 2,000.00	
Cash-Merchants National (checking)	7,000.00	
Cash-First Trust & Deposit (checking)	500.00	
Cash- Seneca Federal (Savings)	22,000.00	
Due from Empire Pipeline Corp.	61,000.00	
Miscellaneous Notes Receivable Scott, Carr, Murphy, Jiminez	3,400.00	
TOTAL CURRENT ASSETS		\$ 95,900.00

INVESTMENTS

Pollution Dynamics Common stock (cost)	\$ 366.00	
Tudar Hedge Common Stock (cost)	666.00	
Fidelity Trend Common Stock (cost)	12,500.00	
Putnam Equities & Vista Common stock (cost)	12,500.00	
Traffic Council of America Common Stock & bonds	5,000.00	
Cash Surrender Value Life Insurance (estimate)	4,000.00	
Coin collection (mkt)	500.00	
Pompey Hills Realty Corp Common Stock (cost)	18,750.00	
Seneca Properties Loans & Common Stock (Net book value)	19,905.00	
Monarch Soils, Inc., Loans & Common stock (Net book value) 10/31/69	3,659.00	
Wyncraft Leasing, Common stock (net book value) 10/31/69	2,883.00	
TOTAL INVESTMENTS		\$ 80,729.00

PARTNERSHIPS

Wynn, Grago, Grasso (capital)	\$ 2,599.00	
Wynn, Grago & Murphy, W. Monroe Property (mkt)	3,300.00	
Wynn, Grago, Mucedola & Cook, Cato Property (mkt)	1,700.00	
Wynn, Grago, Mucedola, N.Syracuse (mkt)	8,000.00	
Investment in W. G. G. Trust, Loans and Net Book Value	120,900.00	
TOTAL PARTNERSHIPS		\$136,499.00

OTHER ASSETS

Notes, Seneca Properties	\$ 20,000.00	
Notes, Pompey Hills Realty Corp.	18,300.00	
Mobile Home (cost)	14,500.00	
Personal Residence (cost)	250,000.00	
Building	40,000.00	
TOTAL OTHER ASSETS		\$342,800.00
TOTAL ASSETS		\$655,929.00

Government's Exhibit 98

80410

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Notes Payable - Merchants National Bank	\$101,875.00	
Mortgage - Seneca Federal Bank	98,000.00	
Notes, Monarch Soils Inc. 12/31/69	<u>39,750.00</u>	
TOTAL CURRENT LIABILITIES		\$239,625.00

CAPITAL

Net Worth - Harold L. Wynn, Jr.		<u>416,303.20</u>
TOTAL LIABILITIES & CAPITAL		<u>\$655,928.00</u>

Signed

Harold L. Wynn, Jr.

Government's Exhibit '98
 WILLIAM J. GRAGO, JR.
 STATEMENT OF CONDITION
 November 30, 1970

80411

ASSETSCURRENT ASSETS

Cash on Hand	\$ 750.00	
Cash-Merchants National (checking)	1,000.00	
Cash-Seneca Federal (Savings)	2,000.00	
Due from Empire Pipeline Corp.	32,000.00	
Cash-Onondaga Savings	3,000.00	
Cash-Merchants National (savings)	14,000.00	
TOTAL CURRENT ASSETS		\$ 52,750.00

INVESTMENTS

Fidelity Fund Common Stock (cost)	\$ 12,500.00	
Pollution Dynamics Common Stock (cost)	366.00	
Tudor Hedge Common Stock (cost)	666.00	
Putnam Equities & Vista Common stock (cost)	12,500.00	
Cash surrender value life insurance (estimate)	2,200.00	
Coin collection (mkt)	1,500.00	
Pompey Hills Realty Corp common stock (cost)	6,250.00	
Seneca Properties loans and common stock (net book value)	7,026.00	
Monarch Soils, Inc., Loans and common stock (net book value) 10/31/69	2,722.00	
Wyncraft Leasing, Inc., common stock (net book value) 10/31/69	960.00	
American Telephone & Telegraph common stock (mkt)	2,200.00	
Dyna Logics common stock (cost)	500.00	
TOTAL INVESTMENTS		\$ 49,390.00

PARTNERSHIPS

Wynn, Grago, Grasso (capital)	\$ 2,599.00	
Wynn, Grago, & Murphy, W. Monroe Property (mkt)	1,650.00	
Wynn, Grago, Mucedola & Cook, Cato property (mkt)	1,700.00	
Wynn, Grago, Mucedola, No. Syracuse (mkt)	4,000.00	
Investment in W.G.G. Trust, Loans & Net book value	89,000.00	
TOTAL PARTNERSHIPS		\$ 98,949.00

OTHER ASSETS

Notes, Pompey Hills Realty Corp.	\$18,000.00	
Personal Residence	30,000.00	
Notes, William J. Grago, Sr.	7,500.00	
Other Notes Receivable	1,000.00	
Jewelry & video tape equipment	2,500.00	
Notes, William H. Wynn	21,500.00	
TOTAL OTHER ASSETS		\$ 80,500.00

TOTAL ASSETS\$281,589.00

LIABILITIES AND CAPITALCURRENT LIABILITIES

Notes Payable - Merchants National Bank	\$ 10,625.00	
Notes - Monarch Soils, Inc. 12/31/69	7,250.00	
Onondaga Savings Bank - Mortgage	14,000.00	
Notes Payable-Merchants National Bank	21,500.00	
TOTAL CURRENT LIABILITIES		\$ 53,375.00

CAPITAL

Net Worth - William J. Grago, Jr.		228,214.00
TOTAL LIABILITIES AND CAPITAL		<u>\$281,589.00</u>

Signed

Wm. J. Grago Jr.

E-407
Government's Exhibit 99
United States Department of Justice

AND REFER TO
INITIALS AND NUMBER

WCMACD:dlf

75-3888

SOUTHERN DISTRICT OF NEW YORK
ONE ST. ANDREW'S PLAZA
NEW YORK, NEW YORK 10007

June 7, 1976

Paul Grand, Esq.
Grand & Ostrow
375 Park Avenue
New York, NY 10022

Re: Bernard A. Frank

Dear Mr. Grand:

This letter is to memorialize our conversation of this date in which I assured you, in order to overcome Mr. Frank's Fifth Amendment claim, that his disclosures in response to our questions concerning the affairs of the Stirling Homex Corporation would not be used against him, directly or indirectly, in any future prosecution just as if the formalities under 18 U.S.C. §6003 had been employed. The only limitation on this immunity is that it is expressly conditioned on Mr. Frank's truthfulness and, accordingly, any false statements to our office or the Grand Jury during the course of his future cooperation would be sufficient grounds to vitiate this undertaking.

Very truly yours,

ROBERT B. FISKE, JR.
United States Attorney

By: W. Cullen MacDonald
W. CULLEN MACDONALD
Assistant United States Attorney
(212) 791-0005

Furthermore, we expressly confirm that Mr. Frank will not be prosecuted for his false and perjurious testimony before this Grand Jury on March 31, 1976, since his recantation has been timely.



UNITED STATES DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

528 Milner Building
Jackson, Mississippi 39201

February 22, 1971

Greater Gulf Coast Housing
Development Corporation
1730 - 25th Street
Gulfport, Mississippi 39501

Gentlemen:

This is in response to your letter dated February 1, 1971, whereby Greater Gulf Coast Housing Development Corporation desires to sponsor the construction of eight hundred (800) dwelling units within the Mississippi counties of Jackson, Harrison, Hancock, Pearl River, Stone and George during the next eighteen (18) months.

We note that Greater Gulf Coast Housing Development Corporation, a non-profit corporation, desires to provide in said area good, safe, decent housing for families and individuals and particularly those of low and moderate income; promote the objectives of equal opportunity in housing and employment and the training of minority workers; participate in the non-profit housing programs of the federal government and to otherwise assist in meeting the area's housing goals in cooperation with existing public agencies and private non-profit sponsors within the area.

The Farmers Home Administration is authorized to assist non-profit corporations in attaining the aforementioned objectives, subject to certain statutory limitations and other rules, regulations and requirements of the agency.

Subject to the requirements hereafter set forth, the Farmers Home Administration does hereby commit to Greater Gulf Coast Housing Development Corporation 100% financing of eight hundred (800) dwelling units within said area, not to exceed a total cost of fifteen million dollars (\$15,000,000). It is understood and agreed that:

Greater Gulf Coast Housing
Development Corporation
February 22, 1971

1. Greater Gulf Coast Housing Development Corporation shall develop each housing project upon sites to be approved by the Farmers Home Administration.
2. The corporation shall comply with all rules and regulations of the Farmers Home Administration in preparing, processing and verifying each loan application.
3. As to each said project, the Farmers Home Administration undertakes to provide 100% financing, however, as to any such project the total financing shall not exceed any applicable statutory limits of the Farmers Home Administration. *Limitation on the amount may be waived*
4. The interest rate and amortization schedule on each said loan shall be consistent with the requirements and standards of the Farmers Home Administration.
5. The term of this commitment shall extend for a period of eighteen (18) months from the date hereof.

If the foregoing commitment and requirements meet with your approval, please sign and return to the Farmers Home Administration a copy of this letter.

Yours very truly,

FARMERS HOME ADMINISTRATION

By

W. T. Richardson
W. T. Richardson, Assistant
State Director

ACCEPTED AND APPROVED this the ____ day of
February, 1971.

GREATER GULF COAST HOUSING
DEVELOPMENT CORPORATION

By

President

Government's Exhibit 238

GOVERNMENT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

238

Id.

7038c

GREATER GULF COAST HOUSING DEVELOPMENT CORPORATION

1730-23TH STREET
GULFPORT, MISSISSIPPI 39501

May 28, 1971

KENNETH N. CARON
PEARLINGTON, MISSISSIPPI
PRESIDENT & DIRECTOR

DR. GILBERT R. WASON
BILOXI, MISSISSIPPI
VICE PRESIDENT & DIRECTOR

LEO SEAL
GULFPORT, MISSISSIPPI
SECRETARY-TREAS. & DIRECTOR

DANIEL D. GUICE
BILOXI, MISSISSIPPI
DIRECTOR

EDDIE KHAYAT
MOSS POINT, MISSISSIPPI
DIRECTOR

CLAUDE PASSEAU
LUEDALE, MISSISSIPPI
DIRECTOR

LAZ QUAVE
BILOXI, MISSISSIPPI
DIRECTOR

HARVEY ROSS
GULFPORT, MISSISSIPPI
DIRECTOR

H. C. TRAVILLION
PANGLOSS, MISSISSIPPI
DIRECTOR

Mr. Rubel L. Phillips
Perry, Phillips, Crockett, Peters & Morrison
P. O. Box 22628
Jackson, Mississippi

Dear Mr. Phillips:

This is to confirm our oral agreement of yesterday agreeing that a certain commitment made by you in your letter of March 16, 1971, addressed to Mr. Leo Seal of Greater Gulf Coast Housing Development Corporation, may be withdrawn and that Stirling Homex Corporation, your client, is no longer bound thereby. The language no longer applicable is as follows:

"I further confirm to you that any project which we may do under the proposed financing agreement or any proposed agreement we have with the non-profit will be of housing actually manufactured in Harrison County, Mississippi.

"I further confirm to you that Stirling has requested the non-profit corporation and has agreed to the non-profit issuing a letter to the home builders, agreeing that Stirling will not construct any single dwelling units within the six county area, and further that any housing units purchased by the non-profit from Stirling, either directly or indirectly, will consist of units actually manufactured in Harrison County."

Government's Exhibit 238

70360

Mr. Rubel L. Phillips
Page Two
May 28, 1971

We agree that Stirling is no longer bound by the
above, however, all other terms and conditions remain
in full force and effect.

Yours very truly,

J. Ruble Griffin
Attorney and Executive Director

E 412

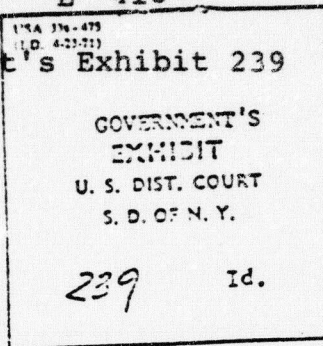
Government's Exhibit 238

70391

Phillips Ex. #11
7/20/72
Pca. T. J. R. R. p

E 413

Government's Exhibit 239



FAVRE & GRIFFIN
ATTORNEYS AT LAW
RUSSELL BUILDING

DAY ST. LOUIS, MISS. 38682

SAM L. FAVRE, JR.
J. RUBLE GRIFFIN
ROBERT L. GENIE, JR.

P. O. DRAWER 71
TELEPHONE 467-5481
467-5482

May 28, 1971

70456

Honorable Rubel L. Phillips
Perry, Phillips, Crockett, Peters & Morrison
Attorneys at Law
P. O. Box 22628
Jackson, Mississippi 39205

Dear Mr. Phillips:

This is to confirm our oral agreement of yesterday, agreeing that a certain commitment made by you in your letter of March 16, 1971 addressed to Mr. Leo Seal of Greater Gulf Coast Housing Development Corporation may be withdrawn and that Stirling Homex Corporation, your client, is no longer bound thereby.

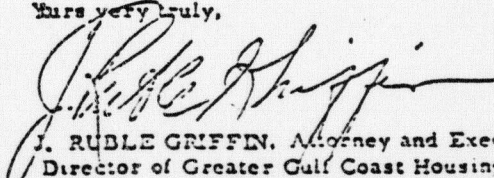
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" I further confirm to you that any project which we may do under the proposed financing agreement or any proposed agreement we have with the non-profit will be of housing actually manufactured in Harrison County, Mississippi.

I further confirm to you that Stirling has requested the non-profit corporation and has agreed to the non-profit issuing a letter to the home builders, agreeing that Stirling will not construct any single dwelling units within the six-county area, and further that any housing units purchased by the non-profit from Stirling, either directly or indirectly will consist of units actually manufactured in Harrison County. "

We agree that Stirling Homex is no longer bound by the above. However, all other terms and conditions remain in full force and effect.

Yours very truly,


J. RUBLE GRIFFIN, Attorney and Executive
Director of Greater Gulf Coast Housing
Development Corporation

JRG:ml

E 414

Government's Exhibit 239

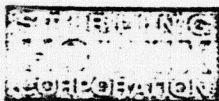
70457

Phillips Ex. 17
9/17/72
S.H.

E 415
USA 13a-475
(ED. 4-21-71)
Government's Exhibit 290

GOVERNMENT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

290 Id.



43605

1150 EAST RIVER ROAD ■ AVON, NEW YORK 14414 ■ (716) 926-2481

November 18, 1971

William A. Shea, Esq.
330 Madison Avenue
New York, New York 10017

Dear Mr. Shea:

At our request, you have obligated yourself to pay to Central Trust Company, Rochester, New York ("Central Trust Company") the sum of \$200,621.57 consisting of principal in the amount of \$195,192 and interest to and including November 11, 1971 in the amount of \$5,429.57, which obligation is evidenced by a promissory note made by you to the order of Central Trust Company in the total amount of such obligation, plus interest thereon.

At our request, you have also purchased 5,700 shares of Common Stock of Stirling Homex Corporation, which have been pledged as collateral security for your obligation to Central Trust Company.

In consideration of your obligating yourself to Central Trust Company to pay the amounts referred to above and in consideration of your purchasing such shares of Common Stock of Stirling Homex Corporation, we jointly and severally hereby unconditionally agree to indemnify you and to hold you harmless against and to reimburse you on demand for any amounts which you may be required to pay to Central Trust Company on account of such obligation in the amount of \$200,621.57, or any interest thereon, or any loss, damage, cost or expense of any kind whatsoever suffered or incurred by you by reason of your obligating yourself to Central Trust Company, or by reason of your purchasing such shares of Stirling Homex Corporation, as described above.

Anything in this agreement or in any other agreement between us or between you and Central Trust Company to the contrary notwithstanding, you shall conclusively be deemed to have suffered or incurred a loss and damages if



Government's Exhibit 290

43606

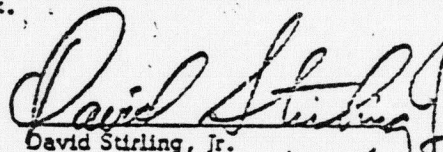
William A. Shea, Esq.

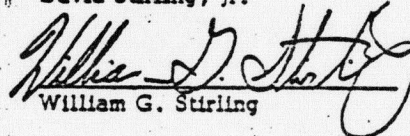
November 18, 1971
Page 2

at any time you shall be required to pay or shall pay to Central Trust Company any amount in respect of any such obligations by you to Central Trust Company, including but not limited to, interest, attorneys fees and other costs and expenses so required to be paid or paid you you, and such loss and damages shall conclusively be deemed to be in an amount equal to the amount of such payment made or required to be made.

This agreement shall apply to any renewals, extensions or replacement of any of your obligations to Central Trust Company, notice of any such renewal, extension or replacement being hereby waived.

This agreement shall be governed by and construed in accordance with the laws of the State of New York.

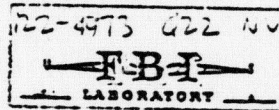

David Stirling, Jr.


William G. Stirling



E 417

Government's Exhibit 290



Qc17 + Q22

Shea Exh 13

Form DJ-151
(Ed. 4-26-65)

UNITED STATES GOVERNMENT

DEPARTMENT OF JUSTICE

Memorandum

TO : Returned from Mr. Klein . DATE:
FROM : on 2/13/75

David Stirling, Jr.Hickory Hill:Aven, New York

June 26, 1970

43607

Mr. Charles W. Marshall
Executive Vice President
Central Trust Company
44 Exchange Street
Rochester, New York 14604

Dear Charlie:

This will confirm our understanding that I guarantee the payment of interest and principal for the following notes, and will hold Central Trust Company harmless from the collection thereof, upon demand by you. Any unpaid interest may be added to the principal of the respective notes.

The notes involved are:

- | | |
|------------------------|----------|
| ✓ 1. Joseph Catalfano | \$10,308 |
| 2. Elmer Jacobs, Jr. | 37,780 |
| 3. Joseh Lune Kirklund | 58,300 |
| 4. William Konyha | 37,780 |
| 5. Milan Marsh | 37,780 |
| 6. Richard Livingston | 13,744 |
| 7. Patrick Campbell | 13,744 |
| 8. Sam Ruggiano | 13,744 |

Sincerely,

David Stirling, Jr.
David Stirling, Jr.

Government's Exhibit 295

43612

Agreement among David Stirling, Jr., William G. Stirling, residing at
1100 11th, Avon, New York 14414, (hereinafter collectively referred to as
"Messrs. David and William Stirling") and William A. Shea (Shea) residing at
2 Grace Court, Brooklyn, New York 11201:

WITNESSETH:

WHEREAS, Shea has heretofore purchased
(1000) shares of the Common Stock of Stirling Homex Corporation through the
brokerage office of Weis Volzin & Co., Inc.; and

WHEREAS, Messrs. David and William Stirling desire to indemnify Shea.

NOW, THEREFORE, for and in consideration of Ten Dollars (\$10.00) and
other good and valuable consideration the receipt of which is hereby acknowledged,
the parties hereto agree as follows:

1. Messrs. David and William Stirling jointly and severally agree to
indemnify and hold harmless Shea, his heirs, executors, administrators, successors
and assigns from all manner of actions, courses of actions, suits, debts, dues,
sums of money, accounts, reckoning, bonds, bills, specialties, covenants, losses,
contracts, controversies, agreements, promises, variances, trespasses, damages,
judgments, extents, executions, claims and demands whatsoever, in law, in
admiralty, or in equity, which may be brought or threatened against them for,
upon or by reason of any matter, cause or thing whatsoever from the beginning
of the World to the date hereof, which arises out of, is based upon or connected
with Shea having purchased the aforesaid shares of the Common Stock of Stirling
Homex Corporation; and will reimburse Shea

[Handwritten signature and notes at bottom right]

Government's Exhibit 295

for any legal or other expenses incurred by him in connection with investigating or defending or preparing to defend against any such actions, courses of actions, suits, debts, dues, sums of money, accounts, reckoning, bonds, bills, specialties, covenants, contracts, controversies, agreements, promises, variances, trespasses, demands, judgments, extents, executions, claims, and demands whatsoever, in law, in admiralty or in equity. 43613

2. The foregoing indemnity agreement shall be binding upon and inure to the benefit of the parties hereto and their respective personal representatives, successors, and assigns.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seal this 11th day of November, 1971.

David Stirling, Jr.
David Stirling, Jr.

William G. Stirling
William G. Stirling

William A. Shea
William A. Shea

Government's Exhibit 295

122-4973 Q23 NV
— FBI —
LABORATORY

Q23

Shea Exh 12

SUBJECT:

Returned from Don Heim on 2/13/75

95247

E 422

Government's Exhibit 319

EXPENSE REPORT David Stirling, Jr.

PERIOD ENDING

19

DAY	CITY AND STATE	LODGING	TRANSPORTATION		AUTOMOBILE EXPENSES			MEALS	LOCAL TAXES & CHARGES	OTHER EXPENSES		DAILY TOTAL
			AIR FARE	GROUND TRANSPORT	MILEAGE	RENTAL	AMOUNT			RECEIPT	AMOUNT	
MONDAY	Oct. 28/70 Montgomery, Ala.									Dinner & Ent. of Reg. & State Personnel re Sales Projects	295.00	
TUESDAY	Nov. 3/70 Louisville, Ky									Dinner & Ent. of Reps. of persons re new plant sites & sales potential	612.00	
WEDNESDAY	Nov. 12/70 Miami, Fla.									Dinner & Ent. of members of Southern Housing Authorities	422.00	
THURSDAY	Nov. 18/70 N. Carolina									Dinner for members of Regional Housing Authority	319.00	
FRIDAY	Nov. 20/70 Gulfport, Miss.									Dinner & Ent. for various persons relating to new plant sites & sales in southern region	571.00	
SATURDAY												
TOTALS												
TOTAL EXPENSES											2,219.00	

Billed or Received

Extensions Prices

Terms % Days Monthly

Payment Date 1-5

VOUCHER NUMBER 01-5010

10 151 25 02 000005 2219.00

PROCESSED

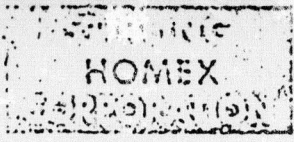
JAN 22 1971

DATA CONVERSION

SIGNATURE

David Stirling, Jr.

APPROVED BY *[Signature]*



E 423 PAYABLE AT 210
Government's Exhibit 319
1150 EAST RIVER ROAD
AVON, NEW YORK 14414
No. 751

DATE January 5, 1971

PAY TO THE ORDER OF STIRLING HOMEX CORPORATION
2,219.00

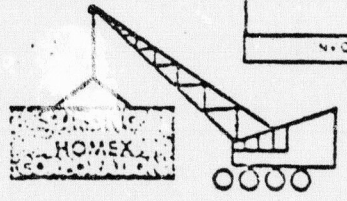
Cash

VOUCHER
NON-NEGOTIABLE
AUTHORIZED SIGNATURE

REMITTANCE STATEMENT

MEMO	VELOCITY	DATE	AMOUNT	DEBIT	CREDIT	REMARKS
	Expense Report for D.S.		2,219.00		2,219.00	01-5010
			NOICES	DEDUCTIONS	DISCOUNT	UNCHECKED AMOUNT

AVON
NEW YORK
14414



CH 1938
SPACE AGE BUILDING BLOCKS

95249

E 424

Government's Exhibit 319

EXPENSE REPORT Frank Csapo

PERIOD ENDING January 1

19 71

[illegible]

1150 EAST RIVER ROAD
Government's Exhibit
AVON, NEW YORK 14414

CHEMICAL BANK NEW YORK

No. 752

DATE January 5, 1971

95250

PAY
TO THE ORDER OF

REF ID: A66666

STIRLING HOMEX CORPORATION

Cash:

VOUCHER

NON-NEGOTIABLE

AUTHORIZED SIGNATURE

REMITTANCE STATEMENT

NAME	DATE	AMOUNT	DEBIT	CREDIT	BALANCE	REMARKS
Expense Report for F.C.	1/1	2,452.00			2,452.00	61-5011

AVON
NEW YORK
15414



○○○○

CH 1939
SPACE AGE BUILDING BLOCKS

E 426
Government's Exhibit 319

2021/10/14

EXPENSE REPORT

David O. Clayton

PERIOD ENDING

19

DAY	CITY AND STATE	LOGGING	TRANSPORTATION		AUTOMOBILE EXPENSES			MEALS	LOCAL TAXES & CHARGES	OTHER EXPENSES		DAILY TOTAL
			AMOUNT	DATE	AMOUNT	DATE	AMOUNT			DATE	AMOUNT	
SUNDAY	Sept. 8-11/70 Chicago, Ill.									Ent. Meals, etc. of customers attending NAHRU convention	412 00	
MONDAY	Oct. 17-19/70 San Francisco									Ent., Meals, etc. of potential customers & gov't reps attending Operation Breakthrough Conference	192 00	
TUESDAY	Nov. 2 - 6/70 Louisville, Ky									IBEC Convention - Ent. Meals, etc. of clients, customers & vendors	341 00	
WEDNESDAY	Dec. 5 - 8/70 Boston, Mass.									New England Regional Council - Meals, Ent., etc. of clients & customers	172 00	
THURSDAY												
FRIDAY												
SATURDAY												
TOTALS												

Billed or Received

Extensions Prices

Terms % Days Monthly

Payment Date 1-5 MIO 01-5012

10/15/25 00.000 005 1117 00

PROCESSED

JAN 22 1971

DATA CONVERSION

EXPLANATION OF OTHER EXPENSES

☐ DEDUCT FROM MY ADVANCE

☐ MAIL CHECK TO

TOTAL EXPENSES 1,117 00

SIGNATURE

David O. Clayton

APPROVED BY

CH 1940
SPACE AGE BUILDING BLOCKS

PERIOD ENDING:

12

DATE	CITY AND STATE	LODGING	TRANSPORTATION		AUTOMOBILE EXPENSES			MEALS	TOTAL TAXI, RENT, ETC.	OTHER EXPENSES		TOTAL	
			FARE	TAXI, ETC.	IMAGE	DESCRIPTION	AMOUNT			RENT	AMOUNT		
SUNDAY													
MONDAY	Oct. 5/70 New York City									Dinner & Ent. of N.Y. Housing Authority at Le Pavillon	416 90		
TUESDAY	Oct. 12/70 Washington, D. C.									Entertainment of Federal Housing Authority Personnel	491 10		
WEDNESDAY	Oct. 27/70 Akron, Ohio									Dinner & Ent. of Akron Metro Housing Authority & City Authorities, etc.	292 00		
THURSDAY	Oct. 29/70 New York City									Dinner & Ent. of Union Representatives re Homex Contract at LePavillon	614 00		
FRIDAY	Nov. 9 New York City									Dinner & Ent. of visiting Housing Auth. members at LePavillon	526 00		
SATURDAY													
SUNDAY													
PROCESSED JAN 23 1971 DATA CONVERSION EXPLANATION OF OTHER EXPENSES												☐ DEDUCT FROM MY ADVANCE ☐ MAIL CHECK TO	TOTAL EXPENSES 2,340 00
SIGNATURE <i>Harold M. Yanowitch</i> APPROVED <i>[Signature]</i>													

HOMEX

E 429 PAYABLE AT

No. 754

PAY
TO THE ORDER OF

7254000

38254

237

NON-NEGOTIABLE

AUTHORIZED SIGNATURE

REMITTANCE STATEMENT						
VENDOR NO.	DATE	AMOUNT	CHECK NO.	BANK	TERMS	REMARKS
Expense Reports for N.Y.		2,340.00			2,340.00	61-5013
		TOTAL DUES	REDUCTIONS			

A simple line drawing of a crane with a lattice boom lifting a rectangular block. The block has the word 'HOMEX' written on it. The crane is positioned on the right side of the frame, and the block is suspended by a cable.

CH 1941
SPACE AGE BUILDING BLOCKS

0, 00

EXPENSE REPORT Reuben K. Davis

PERIOD ENDING

19

DAY	CITY AND STATE	LODGING	TRANSPORTATION		AUTOMOBILE EXPENSES			MEALS	LOCAL TAXES & CHARGES	OTHER EXPENSES		DAILY TOTAL
			AD VAL	PER MILE	AD VAL	PER MILE	AD VAL			PER MILE	EXPENSE	
SUNDAY												
MONDAY	Travel, Meals, Entertainment for trips to Sanford, Maine, Rochester, New York and Worcester, Mass. Details to follow											
TUESDAY												
WEDNESDAY												
THURSDAY												
FRIDAY												
SATURDAY												
TOTALS												
EXPLANATION OF OTHER EXPENSES					☐ DEDUCT FROM MY ADVANCE ☐ MAIL CHECK TO					TOTAL EXPENSES 1,456 00		
										SIGNATURE Reuben K. Davis		
										APPROVED BY <i>[Signature]</i>		

Billed or Received

Extensions

Prices

Terms

%

Days Monthly

Payment Date

VOUCHER NUMBER

1-5

01-544

10 151 25 11 000 001 1456 00

PROCESSED

JAN 22 1971

DATA CONVERSION

Back to M.I.T.

E 431
Government's Exhibit 319

PAYABLE AT $\frac{50-67}{210}$
CHEMICAL BANK NEW YORK

1150 EAST RIVER ROAD
AVON, NEW YORK 14414

No. 755

DATE January 5, 1971

PAY
TO THE ORDER OF

REF ID: A66500

95.256

STIRLING HOMEX CORPORATION

Cash

VOUCHER

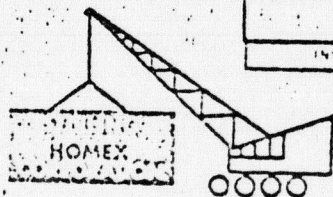
NON-NEGOTIABLE.

AUTHORIZED SIGNATURE

REMITTANCE STATEMENT

PROJECT NO.	DATE	AMOUNT	DEBITORS	CREDITORS	BALANCE	REMARKS
Expense Reports for R.K.D.		1,456.00			1,456.00	01-501

AVON
NEW YORK
14414.



CH 1942
SPACE AGE BUILDING BLOCKS

EXPENSE REPORT William Stirling

PERIOD ENDING

19

DAY	CITY AND STATE	LODGING	TRANSPORTATION		AUTOMOBILE EXPENSES			MEALS	LOCAL TAXES & CHARGES	OTHER EXPENSES		DAILY TOTAL
			AIR, RAIL, ETC.	UNIFORMS, ETC.	MILEAGE	DESCRIPTION	AMOUNT			RECEIPT	AMOUNT	
MONDAY	Oct. 15/70 New York, New York									Meals, Travel & Ent. of Union Reps relative to new contracts	372 00	
TUESDAY	Nov. 4/70 Louisville, Ky									Travel & Ent. & Meals relative to representation of union locals in southern region	491 00	
WEDNESDAY	Nov. 9/70 New York, New York									Travel, Ent. & Meals relative to meeting with Local Housing Authority personnel	216 00	
THURSDAY	Nov. 18/70 South Carolina									Dinner & Ent. of Regional Housing Authority members	415 00	
FRIDAY	Dec. 8/70 New York, New York									Meeting with National Union Representatives	422 00	
SATURDAY												
TOTALS												
EXPENSES									TOTAL EXPENSES			1,916.00

PROCESSED JAN 9 2 1977

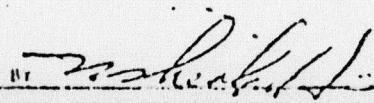
DATA CONVERSION

EXPIRATION DATE

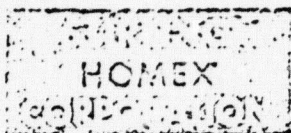
☐ DEDUCT FROM MY ADVANCE

☐ MAIL CHECK TO

SIGNATURE  William G. Stirling

APPROVED BY 

E 433
Government's Exhibit 319



1150 EAST RIVER ROAD
AVON, NEW YORK 14414

PAYABLE AT 50-57
210
CHEMICAL BANK NEW YORK

No. 756

DATE January 5, 1971

95258

PAY
TO THE ORDER OF

MINISTER OF DEFENSE
WASHINGTON, D.C.

STIRLING HOMEX CORPORATION

Cash

VOUCHER
NON-NEGOTIABLE

AUTHORIZED SIGNATURE

REMITTANCE STATEMENT

DATE	DESCRIPTION	AMOUNT	CHECK NO.	DEPOSIT NO.	BALANCE	REMARKS
	Expense Report for W.G.S.	1,916.00			1,916.00	01-5015

AVON
NEW YORK
14414



0000

CH 1943
SPACE AGE BUILDING BLOCKS

Government's Exhibit 403

USA
SD
60-77GOVERNMENT'S
EXHIBITU. S. DIST. COURT
S. D. OF N. Y.

403

Id.



INTER-OFFICE MEMORANDUM

RECEIVED

MAR 1 - 1971

W. G. STIRLING

STIRLING HOMEX CORPORATION

TO	Harold M. Yanowitch	DATE	March 1, 1971
FROM	Edwin J. Schulz	LOCATION	Avon, New York
SUBJECT	PUBLIC OFFERING TIMING	DEPARTMENT	Office of the Controller

I have discussed the following schedule with Peat, Marwick & Mitchell & Company:

1. Audit completion by Saturday, March 20, at which time the final figures for seven months will be known, enabling Stirling Homex management to determine if a public offering is to proceed. After this date no adjustments will be made to the financial results unless absolutely material.
2. Financial statements will be available for inclusion in the printed prospectus by Wednesday, March 24.
3. I have indicated that the Company intends to file this offering with the Security and Exchange Commission on March 29 or 30.

Peat, Marwick is interested in obtaining the time schedule for public offering, as soon as available, in order to schedule their own senior partners for SEC review purposes. Item #3 above can vary by a day or two with the schedule that we have established for Items 1 and 2, and any extended delay in Item #3 will allow additional time to complete the audit.

EJS:cs

xc: David Stirling, Jr.
William G. Stirling ✓

Government's Exhibit 403



□ INTER-OFFICE MEMORANDUM □

RECEIVED

MAR 2 - 1971

STIRLING HOMEX CORPORATION

W. G. STIRLING

TO	Harold M. Yanowitch	DATE	March 2, 1971
FROM	Edwin J. Schulz	LOCATION	Avon, New York
SUBJECT	PROSPECTUS COPIES	DEPARTMENT	Office of the Controller

This morning's conversation with Mike Horn of Peat, Marwick, Mitchell resulted in a list of prospectus copies which should be disseminated as printed to the following:

1. Harris, Kerr, Forster - Attention Mr. Robert Busch - 2 copies.
2. Peat, Marwick, Mitchell - Mr. Jerome Lowengrub, 345 Park Avenue - 2 copies.
3. Peat, Marwick, Mitchell - Attention William J. Murray, 1180 Raymond Boulevard, Newark, New Jersey - 2 copies.
4. Peat, Marwick, Mitchell - Attention Mr. Michael Horn, 400 Midtown Tower, Rochester, New York - 2 copies.

I understand from Mike that Mr. Lowengrub is the SEC partner for Peat, Marwick, and will be here on March 19th to review accounting considerations and financial statement presentations for the prospectus. I believe you should mark your calendar accordingly to be available for this discussion, since Mike has indicated that the primary point will be a land sale. His discussion is not intended to cover recognition of the transaction, since that is essentially settled, but rather to advise us of the most advantageous means of presentation to the Security and Exchange Commission, so that we obtain immediate acceptance.

Mike has indicated that Harris, Kerr, Forster must review the prospectus and financials, since they have been our auditors for prior period information which is included.

Mike has requested that we provide him with the non-financial drafts of the prospectus as soon as they are available, so that he can maintain his own time schedules, and would like to have a copy of the timetable prepared by Merrill Lynch as soon as it is available.

EJS:cs

 cc: David Stirling, Jr.
 William G. Stirling ✓

Government's Exhibit 403

= INTER-OFFICE MEMORANDUM =

RECEIVED

STIRLING HOMEX CORPORATION

MAR 8 - 1971

TO E. A. Bartz DATE March 8, 1971
FROM E. J. Schulz LOCATION Avon, New York
SUBJECT PEAT, MARWICK TAX PARTNER DEPARTMENT Office of the Controller

Peat, Marwick & Mitchell informs me that Mr. Howard Weston, PMM's tax specialist, will be in the office on Tuesday, March 9th, to review the corporate tax matters and last year's income tax return.

Discussions with Peat, Marwick regarding the calculation of State Income Tax will be resolved, and whatever sales schedules which must be prepared by the controller's department should be noted.

They will also be interested in our deferred income taxes and schedule M adjustments, so that they can prepare tax liability entries for the seven month's period.

EJS:cs

xc: David Stirling, Jr.
William G. Stirling
Harold M. Yanowitch

Government's Exhibit 403

INTER-OFFICE MEMORANDUM

RECEIVED

MAR 8 - 1971

W. G. STIRLING

STIRLING HOMEX CORPORATION

TO David Stirling, Jr.
William G. Stirling ✓

DATE March 8, 1971

FROM Edwin J. Schulz

LOCATION Avon, New York

SUBJECT PEAT, MARWICK REVIEW

DEPARTMENT Office of the Controller

Peat, Marwick and Mitchell has informed me that Mr. Jerry Lowengrub will visit Stirling Homex on March 19th to discuss financial presentations and footnotes relative to the S1 filing. They have requested that they be able to meet with both of you on the afternoon of the 19th for final review purposes.

I would expect that Mr. Lowengrub will review with Harold Yanowitch and myself in the morning and/or early afternoon of the 19th, and after that meeting Peat, Marwick may want to review with you their conclusions and comments.

EJS:cs

xc: Harold M. Yanowitch

Government's Exhibit 403

INTER-OFFICE MEMORANDUM

RECEIVED

MAR 12 1971

W. G. STIRLING

STIRLING HOMEX CORPORATION

TO Harold M. Yanowitch DATE March 11, 1971
FROM Edwin J. Schulz LOCATION Avon, New York
SUBJECT AUDITOR INFORMATION DEPARTMENT Office of the Controller

The auditors have requested the following items:

1. A letter from Stirling Homex in house legal counsel to Peat, Marwick & Mitchell covering any open litigation, contingent liabilities, etc. (requested of Jerry Dienstag).
2. All stock option data that is necessary to satisfy the Security and Exchange Commission regarding our stock option plan. I assume that this information should cover the following:
 - a. Number of shares authorized.
 - b. Number of shares granted.
 - c. Number of shares exercised.
 - d. Price range of granted shares.
 - e. General terms of agreement, such as shares are exercisable at 20% per year for five years.
 - f. The fact that the plan is qualified under the Internal Revenue Code.

If you agree I will have the auditors contact Jerry Dienstag for this information.

3. A signed copy of the U. S. Shelter letter covering the financing fee of \$300,000 on the Greater Gulf Coast contract. The auditors have indicated that they would like to confirm this financing fee, and are currently preparing a confirmation letter. (Harold Yanowitch).
4. A copy of the S-1 narrative draft (Jerry Dienstag).
5. Signed copies of the Mississippi plant lease and other agreements, as soon as they are available. (Jerry Dienstag)
6. An opinion from Professor Mauriello on the recording of income by U. S. Shelter Corporation. (Ed Schulz and HMY)

All of the above must be available to the auditors prior to Tuesday of next week, since they expect to have their final review on Thursday, prior to the arrival of their SEC partner.

EJS:cs

cc: David Stirling, Jr.
William G. Stirling

Government's Exhibit 403

INTER-OFFICE MEMORANDUM

RECEIVED

MAR 17 1971

W. G. STIRLING

STIRLING HOMEX CORPORATION

TO	Harold M. Yanowitch	DATE	March 17, 1971
FROM	Edwin J. Schulz	LOCATION	Avon, New York
SUBJECT	AUDITOR'S REQUESTS	DEPARTMENT	Office of the Controller

Please use this memo as a checklist reminder of those items requested by the auditor, which they have indicated that they want to review as soon as possible:

1. Signed copies of the contracts and/or agreements relative to the Mississippi plant lease and bond issue.
2. A letter from our in-house legal staff relative to contingencies, litigation, etc.
3. The underwriting agreement with Merrill Lynch.
4. The signed U. S. Shelter financing fee letter from the Greater Gulf Coast contract.
5. An explanation of why stock options have been delayed, and submitted checks are being held, and a listing of the quantity of shares involved.
6. A draft of the S-1 narrative information.

Also to remind you that on Friday morning the SEC partner of Peat, Marwick, Mitchell, Mr. Jerry Lowengrub, intends to meet with us to review the Stirling Homex financial statements. He also would like to meet with David and Bill Stirling on Friday afternoon for the same purpose.

EJS:cs

cc: David Stirling, Jr.
William G. Stirling

Government's Exhibit 403

= INTER-OFFICE MEMORANDUM =

RECEIVED

MAR 31 1971

W. G. STIRLING

STIRLING HOMEX CORPORATION

TO David Stirling, Jr.
William G. Stirling ✓
Harold M. Yanowitch

DATE March 31, 1971

FROM Edwin J. Schulz

LOCATION Avon, New York

SUBJECT Peat, Marwick, Mitchell & Co. DEPARTMENT Office of the Controller

Jerry Lowengrub, PMM SEC Partner, feels strongly that the following changes should be made:

- (1) Add a footnote to the Prospectus Profit and Loss as follows:

Note C:

"Reference is made to Note 4 elsewhere in this Prospectus regarding Sale of Land".

- (2) Footnote 11 refers to the Coenen lawsuit which states that "in management's opinion" the suit can be defended! He says that this should be "in the opinion of legal counsel" and that management's opinion is not sufficient.

EJS:cs

E 441

Government's Exhibit 403

WS:

DS said you and Mr. Schulz will take care of Peat Marwick people tomorrow in case he cannot come back tonight. I'll have lunch sent in unless you advise differently.

Myriam
4/26/71

RECEIVED
APR 26 1971
W. G. STIRLING

E 442

Government's Exhibit 403

WS-

PEAT, MARWICK, MITCHELL & Co.
CERTIFIED PUBLIC ACCOUNTANTS
400 MIDTOWN TOWER
ROCHESTER, NEW YORK 14604

April 5, 1971

RECEIVED

APR 5 1971

D. STIRLING, JR.

Mr. David Stirling, Jr.
Chairman of the Board of Directors
and Chief Executive Officer
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Dave:

Enclosed are five copies of our June 1970 Management Controls which has several articles reference production planning that may interest you. I mentioned to your secretary last week that Ed Shea, the national coordinator for our production planning systems, will be in Rochester on April 15, 26 and 27. If you can be available for a meeting on any of these dates, please let me know. As I mentioned, I think the meeting should be scheduled starting at 11:00 through lunch. I would arrange for Ed to have a tour of your facility prior to the meeting. (from 9 to 11 am)

Sincerely,

M. Horn

Michael P. Horn

MFH:eb
Enc.

DS: Per your instructions, I talked to Mr. Horn yesterday and set appointment for the 27th of April. I'll arrange for lunch.

W. J. Stirling

E 443

Government's Exhibit 403

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

RECEIVED
MAY 18 1971
JL, C. STOLING

To the recipients of Management Controls:

A number of our readers have inquired whether binders or covers are available for the monthly issues of Management Controls.

Because of this interest, we are sending this slip case to each of the recipients of Management Controls. We trust that it will facilitate the retention and filing on your bookshelf of current and special interest issues of our publication and, in this way, add to the overall usefulness of Management Controls to you.

PEAT, MARWICK, MITCHELL & CO.

Government's Exhibit 403

W Stirling

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

GATEWAY I

NEWARK, NEW JERSEY 07102

W. J. MURRAY

May 11, 1971

RECEIVED

MAY 18 1971

W. Q. STIRLING

Mr. David Stirling, Jr., Chairman
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Mr. Stirling:

Stirling Homex Corporation has developed a concept of modular housing units which has been captioned, at present, apartment/hotels. These units are manufactured as a complete dwelling unit in a single module, fully furnished and with utilities. The units can be installed with a density of 45 units to an acre. The approximate selling price of the project would be \$500,000.

Stirling wants to know the conditions under which it can participate in the management of the properties and share in its future operating profits and potential gains and also recognize its manufacturing profit on the completion of the modules. Under these circumstances, we shall address ourselves to outlining the steps which must be followed to achieve all these objectives.

In this letter, the term "Stirling" refers to the Company, its subsidiaries and any affiliated companies.

Management of the Properties

Management of real estate properties is an identifiable service which is separate and apart from manufacturing activities and real estate development activities. Stirling has had experience in this area and is capable of developing an organization to perform this service. The service must be rendered for a fee which is designed to recover operating costs, overhead and a reasonable profit. The management contract must be terminable by either Stirling or the owner of the property upon reasonable notice or must be for a fixed term. This fixed term should be of reasonable duration (not in excess of five years).

The management contract may not provide for future purchase of the property (except for a "right of first refusal") and may not require additional future development of the property by Stirling.

Management services of this type and provided under the terms outlined above would not preclude income recognition on a sale of either finished modules or a completed installation.

Government's Exhibit 403

PMM & CO.

May 11, 1971

2.

Recognition of income

Income may be recognized when a "closing" has occurred prior to the last day of the accounting period in which the income is to be recognized. In this situation a "closing" means that the consideration has been determined and contingencies in the contract have been satisfied, consideration is exchanged and ownership rights (if not formal title) to the property changes hands.

The purchaser of the property may not be related to Stirling. Furthermore, no guarantees of operating income, cash flow or similar items may be made to the purchaser. Stirling may not commit to repurchase the property (but may have a right of first refusal) nor agree to find a subsequent purchaser for the property (except on payment of a fair and reasonable fee for such services when and if rendered).

N. J. Stirling
Stirling must receive 10% of the purchase price in cash at the closing and the balance of the payments under the purchase price must aggregate an additional 10-15% of the purchase price over the next five years of the notes. The notes must be secured by a first mortgage on the property and must bear a reasonable rate of interest.

Plan for Stirling

Based on the aforementioned criteria the following plan is developed which will meet all the criteria outlined above.

1. Stirling Homex Corporation will form a wholly-owned subsidiary and capitalize that subsidiary at \$100.
2. The subsidiary will form a limited partnership with the purchasers of the apartment/hotel development.
3. The subsidiary will contribute \$100 as its contribution to the capital of the limited partnership.
4. The "outside" partners will contribute the balance of the capital which will be equal to 10% of the purchase price of the property plus the projected deficiency in cash flow (if any) in the early life of the partnership. (If no deficiency is projected and the projection is reasonable, no additional payment is required other than the original 10%).
5. The partnership will purchase the completed project from Stirling prior to any occupancy by tenants.
6. If the partnership obtains "permanent" financing, steps 7 and 8 are not applicable.

Government's Exhibit 403

P.M.M. & CO.

May 11, 1971

3.

7. If Stirling obtains the "permanent" financing, the partnership must assume the obligations under the permanent financing.
8. Stirling must cause an independent appraisal of the property to be made (at least annually) to insure that the resale value of the property is at least equal to the then outstanding balance of the first mortgage.
9. A management contract with Stirling or some subsidiary other than that formed for the purposes of the partnership can be entered into with the restrictions outlined under the caption "Management of the Properties."
10. The partnership agreement can provide that 100% of the depreciation may flow to the non-related purchaser, that the remaining profits or losses may be shared by the partners and that gain on future sale may be shared by the partners.
11. If profits and losses (before depreciation) are shared, Stirling must adjust its income accounts annually for any such profits and losses. If profits are not remitted as of the statement date, an evaluation must be made to determine the possibility of losses on collection, if any.
12. If gain or loss on ultimate disposition is to be shared, a formula recognizing the lower tax basis of the "depreciation partner" must be built into the partnership agreement.
13. If losses on disposition are to be shared, any adjustment evidenced by the annual appraisal noted in 8 and as computed under the formula noted in 12, must be recognized in Stirling's accounts at the statement date.

Evaluation

Stirling has recognized its "manufacturing profit" and has been taken out to the extent of this profit. It has at risk \$100 (its contribution to the capital of the partnership) and, if Stirling obtains permanent financing, it has at risk any excess of the mortgage balance over the resale value of the property.

If the latter event is only occasioned by market conditions occurring after the closing and after the annual financial statement date, this event will not preclude the recognition of the manufacturing profit.

The future participation in the operating profits of the project similarly will not preclude the recognition of the manufacturing profit when the closing occurs.

Government's Exhibit 403

P M H & CO.

May 11, 1971

4.

We would be pleased to discuss with you any of the accounting matters outlined above. In addition, we are sending you a formula that you might consider using in connection with item 12 above. A representative of our tax department will send you a formal memorandum relating to the tax considerations in this matter.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

W. J. Murray, Partner

WJM:MG

Government's Exhibit 403

PEAT, MARWICK, MITCHELL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

GATEWAY I

NEWARK, NEW JERSEY 07102

RECEIVED

MAY 28 1971

W. G. STIRLING

May 28, 1971

Mr. David Stirling, Jr., Chairman
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Mr. Stirling:

We have reviewed the attached memorandum which outlines the financing procedure which U. S. Shelter Corporation proposes to employ with respect to financing of Stirling Homex projects. This procedure is very similar to the procedures employed by other captive finance subsidiaries. Among the better known of these captive finance subsidiaries, are General Motors Acceptance Corporation and Sears Roebuck Acceptance Corporation.

The effect of this proposed transaction is to provide immediate financing for Stirling Homex projects and at the same time provide the lender with a fully secured and collateralized basis of lending through the vehicle of the assignments of the contract rights. From a business point of view, this appears to be a valid and acceptable method of financing.

From an accounting point of view, the receivables which appear on the financial statements of Stirling Homex would be transferred to U. S. Shelter Corporation. In the consolidated financial statements of Stirling, disclosures would be required to be made to indicate the nature and extent of the intercompany transactions. In the Registration Statement which was recently filed by Stirling, disclosures were made with respect to the initial transaction of this type. Similar disclosures would be required to be made in the future.

This concept is basically sound from both a financial point of view and an accounting point of view. The details of how these entries will be effected on the financial statements of Stirling and the necessary disclosures in those financial statements have been discussed with Mr. Schulz and we are in agreement as to these details.

If you require additional information, please let us know.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

W. J. Murray
W. J. Murray, Partner

WJM:MG

Government's Exhibit 403

Dictated by EJSchulz over the phone
5/28/71 - 1:00 P.M. - sf

May 28, 1971

Mr. David Stirling, Jr.
Chairman of the Board
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Mr. Stirling:

We have reviewed the attached memo which outlines the financing procedure which U. S. Shelter Corporation proposes to employ with respect to financing of Stirling Homex projects. This procedure is very similar to the procedures employed by other captive finance subsidiaries. Among the better known of these captive finance subsidiaries are General Motors Acceptance Corporation and Sears Roebuck Acceptance Corporation.

- The effect of this proposed transaction is to provide immediate financing for Stirling Homex projects and, at the same time, provide the lender with a fully secured and collateralized basis of lending through the vehicle of the assignments of the contract rights. From a business point of view, this appears to be a valid and acceptable method of financing.

From an accounting point of view, the receivables which appear on the financial statements of Stirling Homex Corporation would be transferred to U. S. Shelter Corporation. In the consolidated financial statements of Stirling, disclosures would be required to be made to indicate the nature and extent of the inner company transactions. In the registration statement which was recently filed by Stirling, disclosures were made with respect to the initial transaction of this type. Similar disclosures would be required to be made in the future.

This concept is basically sound from both a financial point of view and an accounting point of view. The details of how these entries would be effected on the financial statements of Stirling and the necessary disclosures in those financial statements have been discussed with Mr. Schulz, and we are in agreement as to these details.

If you require additional information, please let us know.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

William J. Murray

Government's Exhibit 403

PEAT, MARWICK, MITCHELL & CO.

CERTIFIED PUBLIC ACCOUNTANTS

345 PARK AVENUE 2

NEW YORK, NEW YORK 10022

August 5, 1971

RECEIVED

AUG 9 - 1971

W. & STIRLING

Mr. William Stirling
President
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Mr. Stirling:

We have been requested by Mr. W. J. Murray of our Newark Office to add your name to the mailing list to receive our publication World. This is a quarterly publication, and you will receive it regularly beginning with the next issue.

Your name and address appear above in the same form in which they will appear in our address file. If you wish to make any corrections, will you please notify us.

We hope you will find this publication informative.

Sincerely yours,

PEAT, MARWICK, MITCHELL & CO.

Walter E. Hanson

Walter E. Hanson, Senior Partner

WEH:ld

E 451

Government's Exhibit 403

LEGAL DEPT.
JUN 1 1972
STIRLING HOMEX CORP.

6/1/72 cc: ~~W. G. Stirling, Jr.~~
W. G. Stirling

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
345 PARK AVENUE
NEW YORK, NEW YORK 10022

May 31, 1972

RECEIVED
JUN 1 - 1972
W. G. STIRLING

Mr. Harold M. Yanowitch
Executive Vice President and General Counsel
Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Dear Mr. Yanowitch:

As requested in your letter of May 30, 1972, I telephoned our Partner in Beirut, Joseph Kanaan, and discussed with him the proposal referred to in your letter and discussed in the enclosed brochure. He thought that money might be obtained for the project and suggested that I send him all the material which I am now doing.

Mr. Kanaan also suggested that it is more effective in matters of this kind if he deals through a broker in Beirut. Accordingly, can you give me some indication as to what sort of commission a broker might receive for obtaining the necessary funds.

I will write to you again just as soon as I hear from Mr. Kanaan.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.

Leon O. Stock

Leon O. Stock

LOS:CC

CC: Mr. Joseph Kanaan, Beirut, Lebanon

Government's Exhibit 403

PEAT, MARWICK, MITCHELL & CO.

PRINTED IN U.S.A.

TO	MR.	J. M. Kanaan	DATE	May 31, 1972
	OFFICE	Beirut, Lebanon		
FROM	MR.	L. O. Stock	STENO	CC
	OFFICE	International Tax Division--New York	ENC.	X
	CC:	Mr. H. M. Ysnowitch, Stirling Homex	CONTRACT NO.	
			CLIENT CLASS.	
SUBJECT		Harold M. Ysnowitch		YOUR LETTER DATED:
		Stirling Homex Corp., Avon, New York		

Dear Joe:

I am enclosing the written material dealing with the real estate project we discussed briefly on the telephone today. I am also enclosing a copy of my letter to Mr. Ysnowitch.

It was certainly good talking to you again and I hope we will meet somewhere in this world in the very near future.

E 453

Government's Exhibit 689

USA 136-475
(ED. 423-71)

GOVERNMENT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

689

Id.

INTER-OFFICE MEMORANDUM

59506

STIRLING HOMEX CORPORATION

TO See Distribution
FROM William G. Stirling
SUBJECT ANNUAL REPORT MEETING

DATE September 9, 1971
LOCATION East River Road
DEPARTMENT Office of the President

We are calling a meeting for 2:30 P.M. this afternoon in the Executive Conference Room for the final review of the attached text. All of you are requested to attend.

WGS

WGS:sf
Attachments
Distribution:
DStirling, Jr.
HMYenowitch
EJSchulz
CLWren
RGLevering

Government's Exhibit 689

59507

CORPORATE COMMUNICATIONS

September 9, 1971

AGENDA

- . Annual Report
- . Earnings Release (Security Analysts)
- . Exhibits
 - Kansas City
 - (NAHRO - Oct. 4 - 6)
 - Louisville, Ky.
 - (INBEX - Oct. 31 - Nov. 1, 2, 3)
- . Press Releases
- . Mailing Lists
- . Promotional Literature
- . Service Logistics

Government's Exhibit 689

August 30, 1971

A

59508

REVISED PRODUCTION SCHEDULE

To deliver annual report on the evening of September 20 by air to New York City. In order to meet this schedule, we must have the following:

1. Approval of the color photographs no later than Wednesday, September 1. *Done 9/1/71*
2. Receipt of all inside copy and chairman's letter no later than Wednesday, September 1.
3. Approval of all photographs for the inside of the annual report no later than Wednesday, September 1. *Done 9/1/71*
4. Approval of the color cover, and proof sheets within two hours after they are delivered to management. We should receive these color proofs on September 8.
5. We must have approval of the blueprints of inside section including photographs, within two hours when received on Monday, September 13.
6. Receipt of financial data on August 30.

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August 30, 1971

59509 8

MECHANICAL STEPS

1. Financial data to typesetter on or before 5 p.m., August 30.
2. Eight color photographs to separator on August 30. *Done 8/30/71*
3. Balance of all color photographs to printer on or before Wednesday, September 1, 5 p.m. *Done 9/1/71*
4. Narrative copy and chairman's letter to typesetter, Wednesday, September 1, 5 p.m.
5. Copy returned from typesetter on Friday, September 3.
6. Copy into mechanical form with photographs cropped and sized for delivery to printer 5 p.m., September 8.
7. Proof sheets of color separations approved and returned same day, September 8. *Done 9/8/71*

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59510

J

Release No.	Description	Activity/Date
R-171	IT CAN BE DONE - film special story to Advertising Age	6/17/71 to WS hold - not approved
R-172	Redstone Central RR/BRIER HILL	8/2/71 to WS hold - not approved
R-173	Pension Plan	8/2/71 to WS hold - not approved
R-174	Ithaca Contract to Stirling Homex	Released 8/17/71
R-175	Train/Granada	7/8/71 to WS hold - not approved
R-176	Prison Trustees CONFIDENTIAL	4/19/71 to WS hold - not approved
R-177	Approved Vet's Training Program	Released 8/23/71
R-178	Move to Henrietta	3/8/71 to WS hold - not approved
R-179	S. Porter Driscoll	To be released 9/9/71
R-180	Portland, Maine	8/5/71 to WS okay/hold for release
R-181	Given new number See R-185 (Utica)	
R-182	Rochester Institute of Technology	Released 8/9/71
R-183	Sketch S-H (not applicable)	-----
R-184	Release on HOUSE & Story	Released 8/18/71
R-185	Utica Contract	Released 8/24/71
R-186	Edwin J. Schulz elected Senior Vice President of Operations	Released 8/24/71

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9/9/71

September , 1971

To Our Shareholders:

59512

It is with both pleasure and pride that we submit our second Annual Report to the shareholders of the Stirling Homex Corporation. During fiscal 1971, your Corporation greatly expanded its sales, earnings, markets, product lines, production capacity and organizational capability.

Our leadership position in the quality modular housing field has been significantly strengthened. We enthusiastically look to the future and its opportunities for our orderly growth and an ever-increasing demand for your firm's products and services. The body of your Annual Report will focus in greater detail on the many valid reasons for this optimism.

We are confident that you will share with management our satisfaction with the accomplishments of this past year. ~~we~~ we are confident that you will share our excited anticipation for the coming years.

For the fiscal year ended July 31, 1971, the Company's net income was \$ _____, a _____ per cent increase from the year before. Earnings per share were _____ cents, compared with _____ cents in fiscal 1970. Sales in fiscal 1971 were \$ _____, a rise of _____ per cent from the previous year. Backlog as of July 31 was \$ _____, a gain of _____ per cent from a year earlier.

On July 29, Stirling Homex completed an underwriting of \$2.40 cumulative convertible preferred stock which increased working capital by approximately \$18,775,000. Merrill Lynch, Pierce, Fenner & Smith Inc. headed a group of underwriters who handled the successful offering. ~~A substantial portion of the~~ proceeds was used to ~~the~~ ^{REDUCE} short-term bank notes and strengthen the Company's

Government's Exhibit 689

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financial position. Stockholders' equity in the Company was increased from \$13,338,645 to \$32,338,645.

As a result of continuing research and development, Stirling Homex in February brought out an attractive new line of modular townhouse apartments. The newly styled low-rise line was expanded to include studio, one and five-bedroom units, in addition to two, three and four-bedroom townhouses. Featuring redwood and brick facades with cedar shake mansard roof lines, the new models immediately gained favorable market acceptance.

The Company continued to improve its lightweight concrete and steel high-rise modular apartments which were featured in the September cover story of House & Garden Magazine. Stirling Homex has developed additional installation techniques for its high-rise modules, while maintaining the unique hydraulic jacking system. The Company has secured a U. S. patent on its factory assembly line and methods for building modular housing. In addition, the Company has been advised that two of its patent applications relating to its high-rise building systems have been allowed. Additional patent applications covering the Stirling Homex high-rise systems are pending in this country ~~and~~ *and other countries.* ~~numerous applications in foreign countries.~~

We have signed a \$ _____ contract with the U. S. Department of Housing and Urban Development to manufacture and install a 13-story high-rise building containing more than 200 units at Memphis, Tennessee for the "Operation Breakthrough" Program. The building is scheduled to be completed by _____.

During the year, we began marketing our products to a much broader consumer spectrum. In the past, the Company generally had limited its activities

Government's Exhibit 689

-3-

59514

to Federally assisted housing programs, ^{and} assuming ³⁰ all responsibility from manufacture to completion of the project. This year, we entered the private shelter markets and added conventional and other forms of financing to supplement Federally sponsored programs. Our new markets include efficiency resident apartments, hotel/motel, college housing and others. The Company continues to successfully sell its products to local public agencies and non-profit sponsors receiving Federal assistance.

Stirling Homex entered the college housing market during the summer. We installed 275 apartment units in 31 days for the Rochester Institute of Technology. This was a world speed record for housing erection at an individual site by one company. On July 7, Stirling Homex swung the first module into place on the RIT campus and installed the last one on August 6. In achieving the record, the Company completed installation of over 600 modules during the construction period despite 10 days of rain. With the completion of the \$5 million project, other institutions of higher learning and state authorities have expressed interest in the Company's products and performance capability.

A new thrust into private markets was made ~~in Utica N.Y.~~ ^{IN UTICA N.Y. where a local dealer is now installing 112 S.H.} with the signing of a contract to install a 112-unit, furnished modular townhouse apartment complex valued at \$1-1/2 million in Utica, New York. A local developer is installing the modular efficiency units, which will be operated by a private owner on completion for the use of middle-income families, utilizing conventional financing. This type of market expansion is geared to provide needed new housing for those whose incomes are too high for Federally assisted programs.

Government's Exhibit 689

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The Company was awarded a contract in competitive bidding between conventional builders and modular manufactured housing concerns to construct 54 general occupancy townhouse apartments at Ithaca, New York. The \$1,233,000 contract was awarded by the Ithaca Housing Authority and demonstrates the applicability of industrialized housing to conventionally designed developments.

A variety of other developments were initiated during the year. Stirling Homex received orders from customers in New York, Mississippi, Indiana, Ohio, Pennsylvania, West Virginia, Massachusetts, Washington, D. C., Maine and Virginia.

Keeping pace with its
~~expanding sales and marketing efforts, the~~
~~Company plans to build a \$5 million twin-line manufacturing facility at Gulfport,~~
~~Mississippi which will increase its production capacity to 100 modules~~
~~financed by Industrial Revenue Bonds.~~
~~Using marine, rail and highway transportation, the new Gulf Coast~~
 plant will provide housing modules for marketing throughout the South, Southwest, lower Midwest and Caribbean area. The new facility will have self-contained loading dock for shipping our products via the inland waterway system and by sea. Construction of this modern production complex is expected to be completed and operational in FISCAL 1972.

During the year, the Company completed a 75,000 square foot expansion of the Avon manufacturing facilities which ~~increase current capacity to 50 modules~~ *doubled production*. Additional production efficiencies have been incorporated in the two lines at Avon which produce both low-rise, wood-based and high-rise concrete and steel modules. ~~The Company has been a patent on its modular production line process.~~ Stirling Homex, which currently transports its products by train and truck, is the only housing producer to ship housing cross-country by rail.

Government's Exhibit 689

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50511

for major projects in the United States.

As a pioneer in a new industry with advanced housing techniques and technology, Stirling Homex is continuing its specialized training programs for all levels of personnel. In cooperation with the United Brotherhood of Carpenters and Joiners (AFL-CIO), the Company trains unskilled persons to become housing ^{certified} assemblers under a contract with the New York State Department of Labor. Stirling Homex also has been ^{accredited} ~~as~~ as an Approved Veterans' Training Facility.

U. S. Shelter Corporation, a wholly-owned mortgage-banking subsidiary, is active in providing both short and long-term financing for Stirling Homex customers. U. S. Shelter ~~which was professionally staffed during the year~~, is engaged in developing a variety of conventional and Federally assisted financing techniques for housing.

In view of the Company's expanded production, marketing, and financial capabilities, we anticipate that sales and earnings will increase in fiscal 1972, ~~compared to the previous year~~. The outlook for industrialized housing is bright. The need for new homes, as related to the level of housing starts, continues to rise.

We are appreciative of the efforts of our employees, management, directors and customers in achieving such significant progress during the year ~~and the work has furthered the conf. of our stockholders.~~

David Stirling, Jr.

Chairman and Chief Executive Officer

William G. Stirling

President and Chief Operating Officer

Government's Exhibit 639

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59516

The Company continued to improve its lightweight concrete and steel high-rise modular apartments which were featured in the September cover story of House & Garden Magazine. Stirling Homex has developed additional installation techniques for its high-rise modules, while maintaining the unique hydraulic jacking system which has U. S. and foreign patents pending.

We have signed a \$_____ contract with the U. S. Department of Housing and Urban Development to manufacture and install a 13-story high-rise building containing more than 200 units at Memphis, Tennessee for the "Operation Breakthrough" Program. Construction is scheduled to start in _____ and be completed by _____.

During the year, it was decided to ^{make it a matter of market} market our products ^{in the past} to a much broader consumer spectrum. Previously, the Company generally had limited its activities to Federally assisted housing programs, assuming all responsibility from manufacture to completion of the project. The decision was made to enter new private shelter markets and also to use conventional and other forms of financing, in addition to Federally sponsored programs. The new markets include college housing, efficiency resident apartments, hotel/motel and others. The Company is continuing to sell its products to local public housing authorities and non-profit sponsors while penetrating new market areas.

Stirling Homex entered the college housing market during the summer by installing 275 apartment units in 31 days for the Rochester Institute of Technology. This was a world speed record for housing erection at an individual site by one company. On July 7, Stirling Homex swung the first module into place on the RIT campus and ^{erected} the last one on August 6. In achieving the record, the

have 3 space

Government's Exhibit 689

59517

Completed installation of -3-

Company installed over 600 modules during the construction period despite 10 days of rain. *with the completion of the* Since the \$5 million project ~~was completed~~, other universities *-Stirling and Homex* and institutions of higher learning have expressed interest in the Company's shelter products.

A new thrust into private markets was made in August with the signing of a contract to install a 112-unit, furnished modular townhouse apartment complex valued at \$1 1/2 million in Utica, New York. A local developer is installing the modular efficiency units, which will be operated by a private owner on completion for the use of middle-income families, utilizing conventional financing. This type of market expansion is expected to assist in stimulating new housing for those whose incomes are too high for Federally assisted programs.

The Company was awarded a contract in competitive bidding between conventional builders and modular manufactured housing concerns to construct 54 general occupancy townhouse apartments at Ithaca, New York. The \$1,233,000 contract was awarded by the Ithaca Housing Authority, using existing statutes which permit the use of industrialized housing systems.

Several other projects were performed during the year. Stirling Homex also has received orders from customers in New York, Mississippi, Indiana, Ohio, Pennsylvania, West Virginia, Massachusetts, Washington, D. C., and Maine *and Virginia*

To supply the needs of its expanding sales and marketing efforts, the Company plans to build a \$5 million twin-line manufacturing facility at Gulfport, Mississippi which will more than triple its production capacity to 150 modules per day. Using marine, rail and highway transportation, the new Gulf Coast

Government's Exhibit 689

- 4 -

59518

plant will provide housing modules for marketing throughout the South, Southwest, lower Midwest and Caribbean area. The new facility will have ~~an~~ ^{self-contained} self-contained loading dock for shipping our products via the inland waterway system and by sea. The modern production complex ~~will encompass over~~ ^{of which} ~~square feet of specialized use space.~~ Construction is expected to be completed ~~and~~ ⁱⁿ ~~in~~ ^{specialized} in calendar 1972. |

During the year, the Company completed a 75,000 square foot expansion of the Avon manufacturing facilities which increased current capacity to 50 modules daily. Additional production efficiencies have been incorporated in the two lines at Avon which produce both low-rise, wood-based and high-rise concrete and steel modules. The Company has been granted a patent on its modular production line process. Stirling Homex, which currently transports its products by train and truck, is the only housing producer to ship new housing cross-country by rail for major projects in the United States.

As a pioneer in a new industry with advanced housing techniques and technology, Stirling Homex is continuing its specialized training programs for all levels of personnel. In cooperation with the United Brotherhood of Carpenters and Joiners (AFL-CIO), the Company trains unskilled persons to become housing assemblers under a contract with the New York State Department of Labor. Stirling Homex also has been certified as an Approved Veterans' Training Facility.

U. S. Shelter Corporation, a wholly owned mortgage-banking subsidiary, is active in providing both short and long-term financing for Stirling Homex customers. U. S. Shelter, which was professionally staffed during the year, is engaged in developing FHA, bank, and various other forms of conventional and Federally assisted financing for housing.

Government's Exhibit 689

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59519

In view of the Company's expanded production, marketing, and financial capabilities, we anticipate that sales and earnings will increase in fiscal 1972, compared to the previous year. The outlook for industrialized housing is bright. The need for new homes as related to the level of housing starts, continues to rise.

We are appreciative of the efforts of our employees, management, directors and customers for helping to achieve the advances by Stirling Homex during the year.

David Stirling, Jr.

Chairman and Chief Executive Officer

William G. Stirling

President and Chief Operating Officer

Government's Exhibit 629

59520

The Annual Report of the Stirling Homex Corporation -- 1971

This has been a year in which the Company has grown in potential, capability and depth, as well as one marked by a substantial increase in sales.

For that reason, this annual report will delineate and accent those aspects of our growth and development which are not readily measured in reportable income, but which nevertheless contribute greatly to increasing the net worth of the Stirling Homex Corporation.

We are gratified to report to you, our ~~members~~^{SHARE} holders, that in addition to the many activities and programs initiated to strengthen and enlarge the Company's future capability, our sales and income in the fiscal year ending July 31, 1971 increased substantially over the previous year.

GREATLY EXPANDED PRODUCTS AND MARKETS.

Significantly, while sales in the previous twelve months were almost totally restricted to housing authorities under the public housing program, sales in the year completed include the private unsubsidized market, college housing, the FHA Rental Assistance Program, the sale of resident apartment units, as well as maintaining and diversifying our sales volume in the various public housing programs.

The sustained and increasing demands of the multi-family housing market indicate a strong and continued acceptability of our line of use-proven townhouses ~~which are configurations~~. Equally suitable for condominium or cooperative sale, as well as ideal rental units, ~~this design is easily adaptable to a variety of Federally insured~~

Government's Exhibit 659

59521 -2-

~~mortgage programs including those with subsidies.~~

In addition to the redesign and expansion of our townhouse line, we introduced several  marketing and product innovations:

- Efficiency Resident Apartments . . . The ever increasing mobility and life style changes of our population demanded a new shelter configuration. Marking a new era in housing, these units provide a full amenity package for a multitude of people whose specific shelter needs are presently unfulfilled.
- Motels for the commercial traveler, vacationer, resort staff housing.
- College Housing . . . Specially designed suites which provide a creative and wholesome environment for student, faculty or married student.
- High-Rise Apartments . . . The ever expanding demand for shelter for the elderly, ~~in addition to~~ young urban families, and the cooperative and condominium markets, insure a substantial potential volume for the newly developed high-rise product range.
- Your Company has today the largest fleet of specialized module transportation equipment in the industry. Entire developments can be simultaneously shipped by rail or highway.
- With the completion of present development programs utilizing the nation's free waterways, we will be able to effectively service, ^{NY} ~~from Avon~~ ^{MISS} ~~and Gulfport~~ a market area which encompasses over 80% of America's population.

Government's Exhibit 689

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-3-

This represents an increase in population market scope of 108% and 388% in terms of serviceable geographic area since our inception in 1968.

RESPONDING TO AMERICA'S CHALLENGING NEEDS

Because Stirling Homex gives a total, immediate and quality response, the Company has provided answers to many of the great housing problems encountered by the men building and re-shaping America. ~~The following are listed:~~

-- New Towns:

"I am of opinion that it, instead of one, was had twelve great cities, so many centres of men, riches and power would be more advantageous than one, for this vast city is like the head of a rickety child."

Fletcher of Saltoun (1793)

The vast city alluded to in the foregoing quote was London, England, its population about 500,000.

An alternative to city overgrowth, density, congestion and pollution has been the development of "New Towns". Today this approach to population and service distribution is recognized as a very practical solution to the ever-growing problem of the megalopolis.

The Congress of the United States is currently pressing for increased legislative authority for New Towns.

Government's Exhibit 689

-4- 59523

Your Company is, for various customers, actively engaged in the design and planning programs of New Town developments in several areas.

-- College Housing:

In late spring, when the early enrollment volume made it apparent that the dynamic and rapidly growing campus of Rochester Institute of Technology in New York State was to have an influx ^{great} of faculty and married students' families ^{were} than there ~~was~~ available accommodations. The administrators of RIT chose the only possible solution to their dilemma . . . the expertise, quality, speed and proven technology of a manufactured shelter product.

The college ~~campus planning staff~~ advertised and sought proposals from the major industrialized housing producers in the Nation specifying that the housing had to meet stringent material and design performance standards, and a bond ^{would have} ~~would have to be~~ ^{Provided} ~~contracted~~ by the developer stipulating that all of the 275 dwelling units would be ready for occupancy prior to the commencement of the school term in September, 1971.

The Stirling Homex proposal was successful, and the Company was awarded a contract valued at just under 5 million dollars..

- On June 14, 1971, site preparation work was begun.
- On July 7, the first module was swung into place by crane.
- On August 6, the last of the 616 modules were installed - an elapsed time of 31 calendar days for the erection process including 10 rain days.

Government's Exhibit 688

-5-

59524

Project design called for the cut and fill of over 100,000 cubic yards of earth and the installation of 8-1/2 miles of underground utilities.

~~A national magazine has inferred that this amazing performance could be considered "record-breaking" for the shelter industry and the entire construction industry.~~

-- Displacement Without Disruption:

This was the mandate. It could not have been done any other way. Joy Park -- ^{vacated} ~~relocation~~ ^{complex} of temporary barracks built for Akron, Ohio rubber workers during World War II -- had to be vacated. Wholesale demolition would have cast all of the residents adrift, disrupted schooling, and provided no alternate opportunity for decent living. Even partial demolition with the new sites being used for conventional building would have caused those residing in the old structures to be without housing for ~~etc~~ ^{months}, a year, or even longer while the replacement homes were being constructed. ~~Knowing that the problem was too great for yesterday's solution,~~ the Akron Metropolitan Housing Authority advertised and solicited nationally for challenge meeting proposals.

A.M.H.A. and

~~The Akron Metropolitan Housing Authority~~ Stirling Homex Corporation made it

A.M.H.

^{was able executed} possible for the Authority ~~and Stirling Homex Corporation~~ to

~~employ~~ -- checkerboard method of razing the old structures

and installing the new Stirling Homex family units. ^{Water} The dramatic result a very short and inexpensive disruption of the lives of the

Government's Exhibit 689

-6- 59525

affected families. They moved out of the condemned buildings ~~directly~~ into ~~the~~ bright and clean new homes located nearby. Today, they have hope, a future, social identification, schooling and continued community life in a new well-planned environment.

NEW DIRECTIONS - DESIGN, TECHNOLOGY, PRODUCTION CAPABILITY

Technology requires constant development, control and direction. The Stirling Homex production and assembly facilities represent the collective "know-how" of design-production, installation personnel, "live input" gained during 3-1/2 years of full scale production of shelter modules.

A key element of our growth has been in refining and expanding our production capacity, achieving and maintaining the highest of quality standards, while adding flexibility to both the production and assembly process.

Your Company has today the complete ability to ~~manufacture~~ *produce* ~~and market~~ *and market* ~~wood concrete steel~~ . . . /high-rise - townhouse - garden apartments/ . . . *from* studio suite to 5 bedroom unit *in wood, concrete and steel* - a cumulative "know-how" which gives Stirling Homex the NOW capability to respond fully and rapidly to a wide variety of markets.

customers ~~visiting~~ *visiting* the Avon facilities are immediately aware of ~~an~~ *progressive* ~~unmistakable~~ *unmistakable* ~~At any point along the main assembly line are visible and~~ *discernible* ~~discernible evidences of efficient methodology~~ *which is* ~~being~~ *constantly* monitored to improve the system.

Government's Exhibit 689

-7- 59526

Quality Control - a fully utilized ^{COMPONENT OF} ~~complement to~~ the manufacturing process. Over ¹⁰⁰ material and process inspections are given every module produced. The quality control unit also monitors installation and client-user maintenance data. Quality responsibility, like all other product elements, does not stop at the shipping dock! Another reason for the large volume of "repeat" business your Company enjoys.

The Company's Gulfport facility will totally synthesize and aggregate all of the production and technology developments perfected to date in the Avon headquarters. Pilot activities and product innovation will continue to enjoy the full input of your Company's management.

DYNAMIC INNOVATIONS IN TRANSPORTATION

The white protective wrapping cover on each module, with its red and black identification logo, has become a familiar sight from Maine to Mississippi and from Ohio to Massachusetts. On specially designed flatbed railroad cars or truck trailers, the Stirling Homex module has become a part of America's transportation scene.

~~Very Soon~~ ~~seagoing vessels out of the Port of Albany and barges from the new Gulfport, Mississippi plant~~ will extend the familiarity of the Homex logo to national and international waters.

Government's Exhibit 689

-8- 59527

The ability to provide
~~With the exception of the ability to provide~~ sophisticated and technologically complete production facility -- as now exists in Avon, New York, and will soon exist in Gulfport, Mississippi -- stems in large measure from the breakthroughs in the transportation of modules achieved by Stirling Homex Corporation.

Last year
~~In 1968~~ a new page in the transportation history was written by the Company when a 2,000 foot long, unit trainload of housing was dispatched almost 1,000 miles from Avon to the tornado-wrecked town of Corinth, Mississippi. ~~Because the railroad yards into the parking areas, all of Corinth,~~ together with Federal, State, and Labor officials were on hand to greet "The Stirling Homex Special" with a cargo of instant housing for the families ~~left homeless by the tornado.~~

This year, the Company shipped several trainloads of modules and has increased the number of specially rigged flatbed rail cars to 50, an increase of 100% since last year.

~~Our~~ Our fleet of custom trailers that transport all configurations of housing modules on the highway has grown from 75 to 175 -- an increase of 125%.

~~From our new plant in Gulfport, Mississippi, the Company will employ rail-highway-transshipment staging areas at various geographic points on the inland waterway system.~~

BROAD RANGE PROFESSIONAL SUPPORT

This year also saw an important broadening and strengthening of the Company's management and professional skills.

The most sophisticated of production facilities require responsive input

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Government's Exhibit 639

-9-

59528

from a variety of talents - technicians, architects, engineers, economists,
and housing professionals such as the following:

Government's Exhibit 689

-10-

59529

Market Research

the abundance of available data is Mark's forte

Stirling Homex does not attempt to duplicate the large body of statistical marketing data available in this Country. However, it does employ and apply the abundance of available data to the fullest degree through its Market Research staff.

The indices of Market Research are the evidences of the future:

~~Persons of over 60 will increase 14% by 1980."~~

- "The percentage of people 60 years and over will grow second only to those in the 20 - 30 year age group."
- "The number of college students is expected to rise from its present level of 7 million to about 11 million in 1985."

— "By 1980, those in the 20 - 30 year age group will constitute two-thirds of the total projected U. S. population."

— "A 60% increase over the level budgeted for the 1972 Fiscal Year is expected for rural sewer and water projects."

— "1974 will be the first year in which six hundred thousand Federally subsidized housing units will be constructed."

- "We have reviewed all available growth comparative data in communities with a population under 100,000 for the States of Tennessee, Virginia, Missouri and Alabama, and have made the following determinant Between 1973-1974, there will be a change of

— "Variations in life style factors indicate a new attitude regarding furnishing rental and sale units."

Government's Exhibit 689

-11- 59530

Education and Training

With the full cooperation of the United Brotherhood of Carpenters and Joiners of America (AFL-CIO) and its affiliate, Local 1106 -- combined with the assistance of both the U. S. Department of Labor and the New York State Department of Labor -- your Company has developed ³¹ ~~programs which~~ ^{improved} provide free training and job opportunities to unskilled and unemployed labor and maintain an educational program which has been one of the great human resource strengths of the Company.

Unskilled and unemployed men and women are taken into this training program from which they graduate as certified "housing assemblers." Last year, almost 300 workers received more than 20 weeks of intensified classroom and on-the-job training.

~~Stirling~~ ^{accredited} Homex Corporation has been ~~certified~~ as an approved Veteran's Training Facility, which means that production employees meeting eligibility requirements are entitled to receive full supplementing training benefits from the Veteran's Administration for as long as two years.

Product Research and Design

Our complete product line is constantly evaluated. To date, over 21,000 product improvements have been initiated.

Architects, engineers, technicians, ^{and designers} draftsmen -- the entire staff of the Product Research and Design Division are daily engaged in perfecting the shelter module of today and the development of the modules which will

Government's Exhibit 689

59531₁₂-

comprise the housing of the future. An impressive cadre of dedicated and highly qualified, skilled personnel, daily producing a product of progress.

As product or market needs are identified, staff professionals develop conceptual alternatives and ~~geometric~~ definition; the concept then receives a basic feasibility study. Subsequently, the ~~two-dimensional~~ concept is advanced to the Systems Design Section where the interrelationship of architecture, engineering and mechanical services are finalized prior to production.

Concurrently, the testing of all materials and techniques are coordinated by the Material Research Section.

The result of the foregoing is a ~~prototype module ready for review~~ a product which fully incorporates the parallel ongoing studies of Stirling Homex housing units which have been a home to families in several states for over 3-1/2 years.

New Design and Engineering Staff

Our staffs of architectural and engineering professionals have expanded the Product Research and Design Division, incorporating expertise in all areas of engineering and design and are fully responsive to the increasing technical demands of the middle '70's.

Marketing

Marketing is concerned with a variety of people and goals -- nonprofit organizations, investors, conventional finance lenders, Government officials - domestic and foreign -- these are the visitors-clients who come

Government's Exhibit 689

5953213-

to Homex, all of whom are seeking a better and more efficient way of solving the housing ~~needs~~

~~It becomes more evident that there is far more involved than just selling although Every individual wants a better home every community needs new housing developments.~~

Our Federal Government has stated a need for 26 million new homes in the decade ending 1978 ~~this need and in fact~~ This ~~potential~~ demand,

is far greater than all ^{Priority} available sources of production, and requires

~~to be a priority, yet must satisfy sound and fundamental business~~

~~It appears that marketing or local priorities indicate a Federally assisted program or middle-high income housing judgments are made by the marketing staff as to the feasibility requirements for Federal or other agency approvals by employing the criteria used by the administering officials in the applicable program.~~

~~On the basis of anticipated rental potential, it is possible to make accurate estimates as to the nature and type of housing which should be provided to meet the needs of a community.~~

~~Proposed sites are evaluated and, as indicated, specialists evaluate, take options, or propose alternative areas.~~

~~Financing agreements are contracted with appropriate officials, lenders, Federal Housing Administration offices, City officials: - all elements in the composition of new communities and quality housing.~~

Government's Exhibit 689

-14-

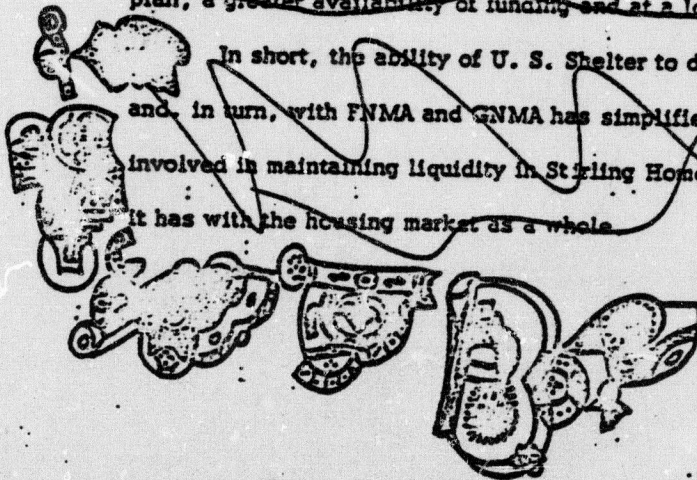
59533

U. S. Shelter Corporation

Where does the money come from? In most cases, the total cost of dwellings provided by Stirling Homex are met from the proceeds of 40-year financing. Some funds are made available through the sale of tax-exempt bonds and private lending institutions which accept as security a mortgage on Government underwriting.

Organized as a wholly-owned subsidiary of Stirling Homex, U. S. Shelter has been approved by the Federal Housing Administration as a qualified mortgagee. U. S. Shelter provides construction financing as well as permanent mortgage financing upon receiving a commitment from the FHA. For such services, the U. S. Shelter Corporation charges a fee ~~of 1/2 percent~~. In addition, U. S. Shelter has been approved to sell and buy mortgages from the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA). ~~The latter two organizations make possible, through the use of the so-called "tandem" plan, a greater availability of funding and at a lower cost.~~

In short, the ability of U. S. Shelter to deal directly with the FHA, and, in turn, with FNMA and GNMA has simplified the number of steps involved in maintaining liquidity in Stirling Homex housing functions as it has with the housing market as a whole.



Government's Exhibit 689

-15-

59534

SIGNIFICANT COMPANY ACTIVITIES

The fiscal year ending July 31, 1971 has been the most successful year the Company has enjoyed to date. Growth - ~~income~~ ^{substantially} - and ~~production~~ ^P capability have increased ~~at a very wholesome rate of growth.~~

Among the significant highlights of the year are the following:

- ~~In 1971~~ ^{Two} Production capability was doubled in the Avon, New York manufacturing facility with the completion of a new 75,000 square foot expansion. The new plant increases the Company's specialized-use space to over a quarter of a million square feet. Yard and storage facilities in Avon now total 1-1/2 million square feet.
- ~~A new line of~~ ^{Two} redwood and cedar shake townhouses and resident apartments are now being manufactured.
- Technically, the production group can now turn out a new space-efficiency configuration of studio, studio suite, and one-bedroom units, as well as the entire line of one, two, three, and four and five-bedroom townhouses.
- A major contribution to production efficiency and overall economy resulted from a total redesign of the modular components so as to reduce the actual number of modules required for townhouse units.
- Significantly reduced maintenance operation and management costs for our clients were made possible through research efforts which produced, among other items, a new monolithic wall finish system.

Government's Exhibit 609

-16-

59535

and major improvements in our proprietary ceiling manufacturing process. A significant element in your Company's success has been the high volume of "repeat business" obtained from satisfied clients.

-- The design of plant and specialized-use space for Gulfport, Mississippi which has been updated to accomplish and integrate the most recent developments and innovations in Stirling Homex production methodology.

-- Major improvements have also been incorporated in the high-rise system design. Prototype research and production input now allows a higher degree of control in the factory; a regrouping of the repetitive functions, such as bathroom and kitchen construction in a standard module form, improved flexibility in dwelling unit size and arrangement, as well as a long list of other design changes which improve the quality of living within the residences and provide maintenance and building management advantages -- all in conformity with the rigid standards established for the high-rise by the Operation Breakthrough Program of the Department of Housing and Urban Development.

-- Finally, underwriters led by Merrill Lynch, Pierce, Fenner & Smith Inc., completed an offering described by The Wall Street Journal as "oversubscribed" of 500,000 shares (20 million dollars) of \$2.40 cumulative convertible preferred stock 10.00 per share,

the proceeds of which will be used for working capital and for reduction of short-term indebtedness.

SUCCESS THROUGH SUCCESSFUL COOPERATION

One of the delightful realizations gained from this last year was that successful Stirling Homex developments have generated a large number of equally gratified "co-partners" in many levels of product use.

Here are a few of the successful "co-partners" that might be found in any typical locality in which Stirling Homex dwellings are installed:

- The families and individuals who reside in high quality, comfortable Homex dwellings - our first concern.
- The rank and file members of the various building trade unions who are employed on the project and, more importantly, find themselves earning wages during those previously unproductive off-seasons.
- The general contractor or developer who undertakes site improvement work and installation of Homex townhouses with the assistance of the Company's training staff and rigid performance criteria.
- The landowner who knows that within a few months the total value of his property will be increased substantially through the rapid installation of Stirling Homex units on all or part of his properties.
- The investor who can establish -- in advance of any commitment and through consultations with Stirling Homex professional staff -- the extent of his monetary contribution as well as the anticipated yield.

Government's Exhibit 639

-18- 59537

- Owners and managers of rental housing units who find that Homex materials, quality, maintenance-free characteristics and continued interest assure a profitable and satisfying stewardship.
- The Mayor, Housing and Urban Renewal Director, or Planning Agency head knows that he can now stop the "wheel spinning" and obtain immediate visibility and results.
- The lending institution which can receive the professional assistance on various government programs as well as receiving secured return on its investment funds.
- The consulting architects, engineers, and attorneys in the locality whose services are vital to the completion of any development of Stirling Homex.
- The various subcontractors who provide the site work, foundations, electrical connections, sewer and water hookups, roads and parking areas and all the other necessary elements required to complete a housing development.
- Other recognized industrialized housing producers are also benefiting because -- as in the past -- the record of success, achievement and leadership of Stirling Homex Corporation has had a demonstrable and positive effect on the integrity and the standards of this new industry. As a result, the achievements of Stirling Homex Corporation have and will make the tasks of all those following the Company easier and more rewarding. In turn, this will help assure America the satisfaction of meeting its housing goals and contribute to the building of the better world that we all seek.

E 485
GOVERNMENT'S

Government's Exhibit 806
U. S. DIST. COURT
S. D. OF N. Y.

806 Id.

CONFIDENTIAL

INTER-OFFICE MEMORANDUM

STIRLING HOMEX CORPORATION

TO Harold M. Yanowitch DATE February 9, 1971
FROM Jerome Dienstag LOCATION Avon RECEIVED
SUBJECT Due Diligence Review by DEPARTMENT Legal FEB 16 1971
Attorneys for Merrill Lynch W. G. STIRLING

Ken Cascone and Ken Sosha reviewed the minute books of Stirling Homex Corporation, Kabeth Properties, Inc. and the Builder-Seller Corporations.

They requested copies of the March 3, 1969 memorandum of understanding between Pressprich and the company, a copy of the minutes of a special meeting of the Board of Directors dated July 31, 1968, a copy of the minutes of the Board of Directors meeting dated February 25, 1970 wherein the sale of the 400,000 shares to the public is authorized and copies of the Certificate of Incorporation originally filed and the first amendment thereto which increases the capitalization to 2,500,000 shares.

They have also requested copies of filings made with the SEC which include Form 9-K for the period ended January 31, 1970, Form 10-K for the period ended July 31, 1970, Form 8-A which registered the company under the Securities Exchange Act and the Form 3's which discloses the holdings of officers and directors.

We have also been requested to supply them with a copy of Structural Engineering Bulletin No. 682 issued by the FHA.

I have supplied them with a list of our bank lines and our current outstandings, and a list of our pending patent applications.

X They have asked for a schedule of our lease contracts which has been prepared.

I would suggest that we give copies of the foregoing to Cascone.

They have read or are reading the turnkey contracts in Erie, Portland, and Worcester (Providence and North). These contracts will not leave our office.

They have also been given a list of current FHA projects now under review.

X They have asked that I prepare a list of litigation pending which may involve \$5,000 and supply a copy of the pleadings.

E 486

Government's Exhibit

806

CONFIDENTIAL

95971

Harold M. Yanowitch

- 2 -

February 9, 1971

X They have asked for copies of deeds and title reports with respect to real estate that we own.

Please advise whether you believe special precaution ought to be taken with any of the foregoing or whether you wish to refuse Cascone to have copies of any of the foregoing. He already understands that he will not be permitted to remove copies of any of the turnkey contracts or patent applications from the office.

JD:pd

1-X

E 487

Government's Exhibit 807

USA 93a-475
(ED. 4-23-71)

GOVERNMENT'S
EXHIBIT
U. S. DIST. COURT
S. D. OF N. Y.

807 Id.

*Book -
ok to mail
Hd*

*O.K.
J
2/22*

RECEIVED
FEB 19 1971
W. G. STIRLING

Government's Exhibit 307

... 217 Copies to ... and DCA

February 8, 1971

95974

Information Request

In connection with the registration under the Securities Act of 1933 of the sale of securities of Stirling Homax Corporation (the "Company"), Merrill Lynch and its counsel, Brown, Wood, Butler, Caldwell & Ivey, would greatly appreciate your making available the following information for their use in preparation of the registration statement and in fulfilling the underwriters' overall due diligence responsibilities under such Act. If any of the information requested is not considered relevant by you, please make the appropriate notation upon this document. The requested information should be collected for the review of Merrill Lynch and their counsel during the next three weeks. The term Company as used herein shall also encompass the Company's subsidiaries where appropriate.

1. Furnish a list of states in which the Company is qualified to do business and list of other states in which it owns or leases real property, maintains an office or has any of its salesmen frequent.

2. Supply copies of any and all patent applications with respect to the Company's products and construction techniques or procedures.

3. Supply copies of all collective bargaining agreements and other written understandings with labor unions.

1. no copies
2. See 30
prepare a
list of applications
and files

Government's Exhibit 807

2

95975

Contracts

4. Make available general correspondence with the Akron Metropolitan Housing Authority and any other customer (governmental or otherwise) which accounts for 10% or more of the Company's gross sales for the year ending July 31, 1970.

*Schedule
of projects &
area involved
Karkaw.*

5. Furnish copies of sales contracts pertaining to the purchase of real estate by the Company together with appropriate title reports and deeds.

6. Furnish copies of all debt instruments including loan agreements, mortgages, notes, guarantees and other similar documents.

*Current
threatened*

7. Supply a list of current litigation in which the Company is involved either as a plaintiff or defendant and supply copies of complaints, answers and judgments, if any, of all material litigation in which the Company is involved as a party.

*Reisman -
37
Karkaw manual*

8. Furnish a list of appropriate legislation and governmental rules and regulations upon which the sales by the Company to various government agencies are based.

Karkaw

9. Describe banking and credit relationships including the names of each bank or other financial institution, the nature, limit and current status of any outstanding indebtedness, loan or credit commitments and other financing arrangements.

*Reisman Case
Inquiry*

10. Furnish any and all literature in your possession on the construction of high rise modular, including the FHA structural bulletin.

Government's Exhibit 80

3

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Refer

11. Furnish literature on man power training programs with which the Company is involved, including applicable U. S. Department of Labor Manual.

Refer

12. Supply copies of current contracts for sale of modular housing both to government and private parties together with letters of intent or memoranda of understanding with respect to prospective sales.

Refer

13. Describe personal property, such as automobiles, boats, homes, recreational and other facilities and memberships owned or maintained by the Company for the benefit of its officers, directors, employees or affiliated parties.

14. Deliver a schedule of land inventory held by the Company as of January 31, 1971, including cost of land, number of acres, amount of unpaid mortgage etc.

15. Supply Copies of Miscellaneous Documents

✓ a. Stock option, purchase or pension plans.

✓ b. Leases pertaining to real property or equipment and machinery.

none c. Commercial paper discounted with recourse.

none d. Acquisition agreements and letters of intent or memoranda of understanding of a similar nature, including preferred payment obligation under acquisition or other purchase agreement.

Contract e. Warranties.

*FHA list
Contracted
for purchase
proposed* f. Written description of material, oral commitments or understanding.

g. Stock repurchase obligations.

h. Commitments to finders or brokers. *land*

i. Licensing agreements.

*filing under '34 act 10 K, TK, proxy material
7 own 3. 4K*

Defendants' Exhibit 52

BATTLE, FOWLER, STOKES & KHEEL

89748

GEORGE GORDON BATTLE
1887-1948
LUDLOW S. FOWLER
1884-1961
HYMAN L. BATTLE, JR.
CHARLES BURTON
JOHN G. FORBES
RAYMOND F. GREGORY
CHARLES L. JAFFIN
THEODORE W. KHEEL
HERRICK R. LIOSTONE
SAMUEL R. PIERCE, JR.
JAY H. SCHAFRANH
THOMAS STOKES

200 PARK AVENUE
NEW YORK, N. Y. 10017

YUKON 6-8330
CABLE ADDRESS
"COUNSELLOR"

RICHARD ADELMAN
MARTIN H. BANDIER
ROBERT S. BERNSTEIN
CARL D. CORDES
RICHARD M. HESSINA
RALPH J. PALMER
MICHAEL J. SALTZER
HAROLD S. SOMMERS
JOEL H. WALKER

October 15, 1969

Mr. Harold M. Yanowitch
430 Reynolds Arcade Building
Rochester, N. Y. 14614

Dear Harold:

I would be obliged if you could arrange to have 5,000 shares of the public offering set aside for persons who have spoken to me about buying Stirling Homex stock when it comes out. I will supply you with the names and precise amounts sufficiently in advance of the issue date and I thank you for your help in this respect.

Sincerely yours,



Theodore W. Kheel

km

PRELIMINARY PROSPECTUS DATED APRIL 21, 1971

PROSPECTUS**1,025,000 Shares****Stirling Homex Corporation****Common Stock**
(Par Value \$.01 Per Share)

Of the shares of Common Stock offered hereby, 1,000,000 shares will be sold by Stirling Homex Corporation and 25,000 shares will be sold by a stockholder. See "Underwriting". Stirling Homex Corporation will receive none of the proceeds from the sale of the shares by the selling stockholder.

The Common Stock is presently traded in the over-the-counter market. The highest closing bid price of the Common Stock in such market (as reported by the National Association of Securities Dealers' Automatic Quotations) for April 20, 1971 was 20 $\frac{1}{8}$ per share.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholder
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

(1) The Company and the selling stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting expenses payable by the Company estimated at \$

The Common Stock is offered by the several Underwriters subject to prior sale, when, as and if issued and delivered to and accepted by such Underwriters, and subject to approval of certain legal matters by their counsel, Messrs. Brown, Wood, Fuller, Caldwell & Ivey, and by counsel for the Company, Messrs. Shea Gallop Climenko & Gould, and to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part.

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

May , 1971

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Defendants' Exhibit 759

No dealer, salesman or any other person has been authorized by the Company, the selling stockholder or the Underwriters to give any information or make any representations other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Except where otherwise indicated, this Prospectus speaks as of its date. Neither the delivery hereof nor any sale made hereunder shall create an implication that the affairs of the Company have continued without change since such date.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Defendants' Exhibit 759

THE COMPANY

Stirling Homex Corporation manufactures modular housing units and believes that it is one of the nation's leading producers of multi-family modular housing. The modules are manufactured on an assembly-line, using conventional building materials, and are combined at the housing site to form completed dwelling units. All sales to date have been of two story, attached, wood frame townhouses. The Company has designed a concrete and steel frame module for use in high-rise buildings and has been selected by two housing authorities and the Department of Housing and Urban Development ("HUD") to build four high-rise buildings utilizing the concrete and steel frame modules.

All of the Company's sales of dwelling units for the last fiscal year and substantially all of its backlog represent sales to and orders from either local housing authorities or non-profit sponsors for federally assisted housing projects. Generally, upon receipt of a commitment from a customer, the Company purchases the land, prepares the site, lays the foundations, arranges utility connections, manufactures, installs and connects the modules, and landscapes the housing site, thereby providing a total service to the customer in delivering turnkey housing. Modules are equipped in the manufacturing process with the necessary plumbing and heating fixtures, electrical wiring, appliances, floor and wall coverings.

Stirling Homex Corporation (with its subsidiaries the "Company") was incorporated in Delaware in 1968. Its principal plant and executive offices are at 1150 East River Road, Avon, New York 14414, telephone 716-926-2481.

PURPOSE OF THE ISSUE

The net proceeds to the Company from the sale of its shares offered hereby (approximately \$) will be added to the general funds of the Company and will be available for working capital. The working capital requirements of the Company have increased substantially as a result of the growth in sales volume. Additional working capital will be required in connection with the operation of the proposed new plant in Gulfport, Mississippi. See "Properties—Mississippi Plant". Additions to plant, property and equipment aggregated more than \$8,100,000 during the year and seven months ended February 28, 1971.

As of March 31, 1971, the Company had outstanding \$34,200,000 of short-term indebtedness to banks which had been incurred for working capital purposes. The Company estimates that substantially all the net proceeds from the sale of its shares offered hereby will be applied initially to the temporary reduction of such indebtedness. The Company intends to continue to make short-term borrowings from banks in substantial amounts for working capital purposes.

Defendants' Exhibit 759

CAPITALIZATION

The following table sets forth the capitalization of the Company as of February 28, 1971 and the adjusted amounts giving effect to the issue and sale of the shares of Common Stock offered by the Company hereby.

	Outstanding	As Adjusted
DEBT:		
Short term—notes payable to banks(1)	\$34,200,000	\$
Long term—sundry indebtedness(2)	\$ 667,465	\$ 667,465
Total Debt	<u>\$34,867,465</u>	<u>\$</u>
STOCKHOLDERS' EQUITY:		
Preferred Stock, par value \$1 per share:		
Authorized 500,000 shares, no shares outstanding	—	—
Common Stock, par value \$.01 per share:		
Authorized 15,000,000 shares; outstanding 8,907,400 shares; as adjusted 9,907,400 shares(3)	\$ 89,074	\$ 99,074
Additional paid-in capital	\$ 8,476,638	\$
Retained earnings	\$ 4,725,601	\$ 4,725,601
Total Stockholders' Equity	<u>\$13,291,313</u>	<u>\$</u>

(1) As of March 31, 1971. Notes payable consist of 90 day notes to banks bearing interest at a rate of ¼% above the respective bank's best rate on the date of issue.

(2) See Note 8 of Notes to Consolidated Financial Statements.

(3) Does not include 890,000 shares reserved for issuance upon the exercise of stock options granted or that may be granted under the Stock Option Plan. See "Stock Option Plan".

For information concerning obligations under leases on real property, see "Properties—Mississippi Plant" and Note 11 of Notes to Consolidated Financial Statements.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded in the over-the-counter market. The following table sets forth the range of high bid prices for the Common Stock since its initial public offering on February 19, 1970 at \$16.50 per share, as reported by the National Quotation Bureau, Incorporated. The prices represent prices between dealers, not including any retail mark-up, mark-down or commission, and do not necessarily represent actual transactions.

	High	Low
1970		
1st Quarter (from February 19)	51½	26
2nd Quarter	49¾	8¾
3rd Quarter	27¾	11¼
4th Quarter	25¼	16
1971		
1st Quarter	26⅝	18
2nd Quarter (through April 20)	23¼	19¾

The highest closing bid price of the Common Stock in the over-the-counter market (as reported by the National Association of Securities Dealers Automatic Quotations) for April 20, 1971 was 20⅝ per share.

DIVIDENDS

The Company has never declared or paid cash dividends on its Common Stock. All earnings are reinvested in the business. It is not the present intention of the Board of Directors to declare or pay any cash dividends for the foreseeable future.

Defendants' Exhibit 759

CONSOLIDATED STATEMENT OF INCOME

The following Consolidated Statement of Income of Stirling Homex Corporation and consolidated subsidiaries has been examined as to the two years ended July 31, 1970 by Harris, Kerr, Forster & Company, independent certified public accountants, and as to the seven month period ended February 28, 1971 by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their reports appearing elsewhere in this Prospectus. It should be read in conjunction with the other financial statements for the two years ended July 31, 1970 and the seven month period ended February 28, 1971 and the related notes included in this Prospectus. With respect to the figures for the seven month period ended February 28, 1970 which are unaudited, the management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim period have been included.

	Year ended		Seven months ended	
	July 31, 1969	July 31, 1970	February 28, 1970 (Unaudited)	February 28, 1971 (A)
Revenues:				
Sales—trade (Notes 3 and 4) (B) ..	\$ 4,248,713	\$22,094,127	\$11,360,189	\$19,452,281
Sales to affiliates	6,140,338	459,941	459,941	—
Equity in undistributed net income of finance subsidiary (Note 1) ..	—	—	—	104,928
Total revenue	<u>\$10,389,051</u>	<u>\$22,554,068</u>	<u>\$11,820,130</u>	<u>\$19,557,209</u>
Costs and expenses:				
Cost of sales (Notes 3 & 4)	7,213,939	15,159,715	7,467,343	13,868,243
Administrative and selling expenses	701,157	2,390,604	1,514,029	1,642,063
Interest—long-term debt	48,420	9,165	5,862	18,943
other	26,342	639,016	298,078	833,029
Total costs and expenses ..	<u>\$ 7,989,858</u>	<u>\$18,198,500</u>	<u>\$ 9,285,312</u>	<u>\$16,362,278</u>
Income before Federal and state income taxes	<u>\$ 2,399,193</u>	<u>\$ 4,355,568</u>	<u>\$ 2,534,818</u>	<u>\$ 3,194,931</u>
Income taxes (Note 9):				
Federal—current	730,554	1,757,513	969,000	841,000
deferred	422,343	317,386	267,000	548,000
State—current	112,658	208,469	143,000	127,000
deferred	51,157	37,011	34,000	71,000
	<u>\$ 1,316,712</u>	<u>\$ 2,320,379</u>	<u>\$ 1,413,000</u>	<u>\$ 1,587,000</u>
Net income (B)	<u>\$ 1,082,481</u>	<u>\$ 2,035,189</u>	<u>\$ 1,121,818</u>	<u>\$ 1,607,931</u>
Average shares outstanding (C)	<u>8,025,432</u>	<u>8,649,483</u>	<u>8,472,400</u>	<u>8,902,250</u>
Earnings per common share (C)	<u>\$.13</u>	<u>\$.24</u>	<u>\$.13</u>	<u>\$.18</u>

Notes:

(A) The results for the seven months ended February 28, 1971 should not necessarily be considered indicative of the results for the year ending July 31, 1971.

(B) Sales-trade for the year ended July 31, 1969 and for the seven months ended February 28, 1971 include sales of land held for development in the respective amounts of \$750,000 and \$1,822,723, resulting in net income therefrom of approximately \$187,000 and \$556,000, or \$.02 per share and \$.06 per share, respectively. See Note 4 of Notes to Consolidated Financial Statements.

(C) Earnings per common share are based upon the weighted average number of shares outstanding during the periods presented after giving retroactive effect to the four-for-one stock split effected in February 1970. Stock options outstanding during these periods have not been included in this computation since the effect of their inclusion would be insignificant.

(D) Numerical note references are to Notes to Consolidated Financial Statements.

Defendants' Exhibit 759

BUSINESS

The Company is engaged in the assembly-line manufacture and sale of modular housing units. The Company manufactures modules for two story wood frame townhouses and has developed concrete and steel frame modules for high-rise structures. Substantially all of the dwelling units sold have been purchased by customers for rental rather than resale.

Products*The Townhouse*

The townhouse consists of two, three or four modules, varying with the number of bedrooms. Modules are approximately 12 feet in width, up to 31 feet in length and 9 feet in height and are stacked and joined to form a two story dwelling unit. All modules, upon leaving the assembly-line, contain and have affixed or installed wall and floor coverings, wood trim, drapery fixtures, cabinetry, stairs, heating and plumbing fixtures, all necessary electrical systems and fixtures, and welded insulated glass windows. If ordered, a stove, refrigerator and air conditioning system are included. The exterior walls are insulated, sheathed and finished except where conventional brick is used, which is applied at the site.

To date, all of the Company's sales of dwelling units have been of two story attached townhouses. Studio, two, three, four and five bedroom models are available, with a variety of exterior treatments. When the modules have been joined and utilities connected at the building site, nothing further is required to prepare the dwelling units for occupancy. The Company may adjust its production line to meet the specifications of a substantial order. Dwelling units vary in price to the Company's customers from \$15,000 for a studio unit to \$26,000 for a five bedroom unit, inclusive of average site work, installation and transportation costs, and exclusive of land costs.

The Company performs the on-site development work and the installation of the modules in a conventional manner. It utilizes independent contractors and local union construction personnel and tradesmen under the supervision of the Company's employees. Primary on-site development work consists of preparing the foundations, making the necessary utility connections, and installing sewers. Townhouse modules are transported to the site by truck or rail, lifted by crane onto the foundations and joined to each other and the foundation. The electrical heating and plumbing systems between the modules are connected, and pre-packaged trim is applied where the modules are joined. Gutters and downspouts are then installed and brick is applied to the first floor exterior when required by the customer. Finally, the appropriate areas of the site are landscaped and paved.

The High-Rise

The Company has designed a concrete and steel frame module for use in high-rise buildings up to twenty floors in height. It has been selected by two housing authorities and HUD and, subject to entering into contracts, will build four high-rise apartment buildings (twelve and thirteen stories) using these modules. The modules that will become the top floor of the building are placed on the building foundation which has electronically controlled hydraulic jacks and supporting steel structures in alternate bays. After those modules are connected to each other, the jacks raise the entire floor 10 feet and new modules are inserted in the alternate bays below. The jacks are then lowered and the other bays are filled with modules to complete the floor, which is then elevated. This process is repeated until the building is completely erected. The high-rise buildings will contain elevators. Non-load bearing interior walls may be placed wherever desired, thus permitting flexibility of design.

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The Company has built a four story building using this system adjacent to its Avon plant. This building is used both as a sales facility and to train Company employees in the use of its high-rise installation system. Patent applications are pending with respect to the Company's concrete and steel frame module and its system for erecting a high-rise building, but no assurance can be given that patents will be granted.

Operation Breakthrough

The Company's high-rise system has been selected by HUD as one of twenty-two winners in its "Operation Breakthrough" program. As part of Operation Breakthrough, the Company and HUD are negotiating the terms of an agreement pursuant to which the Company will construct a 13-story building containing more than 200 apartments for the elderly in Memphis, Tennessee. This program has as its goal the development of new technology and greater production capacity in the housing industry to assist in meeting the continuing high demand for housing in the United States.

Sales

Trade sales for the year ended July 31, 1970, and for the seven months ended February 28, 1971, were \$22,094,127 and \$19,452,281. The sales for the respective periods were to nine customers and eighteen customers. For the year ended July 31, 1970, the largest customer accounted for approximately 58% and for the seven months ended February 28, 1971, the largest two customers accounted for about 19% and 15% of sales. One of the latter two customers was among the assignees of a single contract which would have accounted for about 40% of sales for the seven month period if it had not been assigned in part. No other customer accounted for as much as 10% of sales for either period. All the sales of dwelling units for both periods were to either local housing authorities or non-profit sponsors for federally assisted housing projects.

Of the sales for the seven months ended February 28, 1971, about 29%, including a substantial part of those made pursuant to the contract referred to above, are subject to the selection of sites by the customers and all sales are subject to certain other conditions including the securing of various approvals, some of which have not yet been complied with. The Company has never had any significant difficulty in complying with such conditions and does not anticipate that it will have any in connection with the sales referred to.

Contracts with the Company's customers generally provide for payment upon completion and receipt of all approvals necessary for occupancy or upon completion of each contract phase. Sales of modules are recognized by the Company for accounting purposes when units are manufactured and assigned to specific contracts. Installation work is recorded on the percentage-of-completion method. See Note 3 of Notes to Consolidated Financial Statements.

During the fiscal year ended July 31, 1969, the Company sold two parcels of undeveloped land and during the seven months ended February 28, 1971 it sold one parcel. Trade sales include \$750,000 for the year ended July 31, 1969 and \$1,822,723 for the seven months ended February 28, 1971 in respect of these sales, which resulted in net income for the respective periods of about \$187,000 (18% of the total net income) and \$556,000 (35% of the total net income). All the sales of undeveloped land provided for deferred payment of part of the purchase price. See Note 4 of Notes to Consolidated Financial Statements. The Company does not anticipate that land sales will be a significant part of its business in the future.

Manufacturing

Assembly-Line Manufacture of Modules

The townhouse modules are manufactured at the Company's Avon plant on a center assembly-line process. At the first work station the floor assembly is built. At succeeding work stations, wall systems,

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ceiling systems, roof systems, kitchen assemblies, electrical systems and fixtures, plumbing systems and fixtures, heating systems and fixtures, insulation, doors and trim, ceramic tile, resilient flooring or carpeting and, when ordered, air conditioning systems, stoves and refrigerators are added in sequence. As the modules progress down the assembly-line, constituent parts are cut to size, shaped and assembled on either side and overhead of the assembly-line and are installed in the module. The module is then wrapped in weather-proof plasticized paper for temporary storage or shipment. In a separate facility the Company manufactures components, such as cabinets and stairs, which are installed on the assembly-line.

Generally about forty modules can be completed in a day in the Company's present facilities. The production facility to be constructed in Gulfport, Mississippi is intended to have the capacity to complete 100 modules in a day. See "Properties—Mississippi Plant." The Company has U. S. and foreign patent applications pending with respect to its assembly-line method of manufacturing modules but can give no assurance that such applications will be successful.

Use of Conventional Materials

The Company uses conventional building materials. It utilizes gas heat (townhouse) or electric heat (high-rise), double party wall and separate ceiling/floor systems, copper water piping, adhesives, nail and screw fastenings and vinyl interior wall coverings. Many components, such as fixtures, appliances and hardware, are purchased ready for installation from independent suppliers. The Company does not have long term purchase contracts with its suppliers; however it believes its raw materials and components are readily available from alternative sources. According to the desired specifications of a particular customer, various interchangeable materials may be utilized with no adverse effect on production efficiency.

The Company performs quality control inspections throughout the manufacturing process. The Company believes its manufacturing system, which eliminates exposure of the materials to the elements during manufacture, enables it to process and install materials in prime condition and to maintain greater quality control and uniformity in its housing than exist in the conventional housing industry. The Company warrants the materials and workmanship of its modules and site improvements for one year from the date of purchase by a customer.

Time Factors

Since on-site construction requirements are reduced to a minimum, reliance upon favorable weather and other local conditions is minimized. Accordingly, the Company's modular housing system permits the complete installation of a housing unit, from excavation of the foundation to occupancy, in less time than is required by conventional construction and eliminates to a large extent clean-up after completion of the project. The reduced construction time lessens the amount of interest costs incurred during development and shortens the interval between the commencement of a project and occupancy and the production of income. Where relocation of families is required, as may be the case in low income housing, the relocation period is appreciably shortened. Although the Company has experienced only minor delays in its site work, it can give no assurance that it will not encounter delays in the future.

Transportation of Units

The Company ships modules to sites and staging areas by flatbed trailer and railroad flatcar. It owns 127 trailers and five tractors and leases 50 flatcars. The Company also utilizes independent carriers which furnish additional tractors and drivers. Shipments by truck, because of cost factors, are not generally made beyond a radius of about 400 miles; shipments by rail may be made to destinations

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1,500 miles from the plant site. Upon the completion of its new facility to be constructed at Gulfport, Mississippi, which will include an 8,500 foot loading dock, the Company intends to ship modules by barge over inland waterway systems as well as by truck or rail where appropriate.

Codes and Legislation

The Company's products are subject to the requirements of local building codes. In its opinion, the Company has established building specifications which meet the requirements of most of these codes. Prior to the commencement of a project, the specific local code is studied by the Company to insure that its product will comply with it. In this connection, representatives of the New York Board of Fire Underwriters inspect the wiring in the modules on the assembly-line and render their approvals in the factory. The location, site plan and installation of its modular units are also subject to local zoning and other similar ordinances.

Minor delays in the completion of its building projects have been experienced by the Company due to the application of such building codes and ordinances. The Company cannot give any assurance that it will not encounter similar delays in the future.

Several states have enacted legislation which affects factory built housing. Recently, such legislation has been introduced in the New York State Legislature. The Company believes that a primary objective of these statutes is the establishment of state-wide standards which may be adhered to by manufacturers in lieu of compliance with various local building codes. However, the Company cannot predict what effect either existing or pending legislation in this area will have on its products or operations.

A Presidential Executive Order issued on March 29, 1971 established a Construction Industry Stabilization Committee to "assure generally conformance of any increase in any wage or salary [established pursuant to a collective bargaining agreement] in the construction industry" with the provisions of such order. It also established an Interagency Committee on Construction to "develop criteria for the determination of acceptable prices in construction contracts as well as criteria for acceptable compensation, including bonuses, stock options and the like." The Company is unable to predict the impact, if any, of this Executive Order and its implementation on the Company's operations.

Federal and state regulations limit the dimensions and weight of loads permitted on rail and highways. Such regulations have not had a material adverse effect on the operations of the Company.

Labor Relations

The Company employs about 1,000 people exclusive of site labor, of whom about 365 are executive, administrative or clerical with the balance engaged in production. In September 1968 the production employees were organized in an industrial unit by the United Brotherhood of Carpenters and Joiners of America, the largest of the building trades unions, representing approximately 30% of all building trades union employees. The Company thereafter entered into a collective bargaining agreement, expiring in September 1971, with the local union providing an industrial contract covering all production employees.

In June 1969 the Company entered into an international agreement with the national office of the United Brotherhood of Carpenters and Joiners of America. Under this contract the Union has agreed to furnish competent journeymen on a non-discriminatory basis to install Company modules anywhere within the jurisdiction of the Union. In return, the Company has agreed to recognize the

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jurisdictional claims of the Union and not to subcontract any work within the Union's jurisdiction which is to be performed at the job site except to a contractor who is a party to an agreement with the Union or who agrees in writing to be bound by the terms of the aforementioned agreement. As a result, the modules are manufactured and dwellings are installed completely by building trades union labor. The Company has had no strikes or interferences with its production or on-site erection of its dwelling units.

Freedom from work interruptions as a result of labor problems is important to the continued success of the Company's business. The Company believes that the above-mentioned agreements have contributed to its present satisfactory labor relations, but it can give no assurance that it will be free of labor problems in the future.

The Company and the Union have agreed to cooperate in a program to provide free training and job opportunities to unemployed unskilled labor and have established an educational program at the Company's Avon plants. The United States Department of Labor and the New York State Department of Labor have awarded the Company manpower grants to assist in the training, in cooperation with the Union, of unemployed unskilled workers in the Rochester area. The Company also offers a continuing education program to all of its employees, with over 90 courses ranging from the skills required on the assembly-line to computer simulation exercises for management.

Financing

The Company believes that its assembly-line produced modular housing is particularly suited to assist in meeting the aims of the federal low rent and moderate income housing programs by permitting the erection of large numbers of approved units in much less time than is possible with conventional construction methods. The Company has directed and intends to direct a significant portion of its sales efforts toward local housing authorities qualified for various forms of financial assistance from HUD and toward private non-profit organizations which sponsor housing for families eligible to receive rental assistance under the National Housing Act.

Financing Sales to Local Housing Authorities

Townhouses have been sold to ten local housing authorities in New York, Ohio, Pennsylvania, Massachusetts, Maine, and Washington, D. C. A qualified local housing authority, in order to raise funds to pay the Company, borrows funds for a period of 60 days to one year, either in the form of a direct loan from HUD, or more commonly, by issuing tax exempt notes which are sold in the private money market and are secured by the full faith and credit of the United States Government. Thereafter, HUD, as the agent for the local housing authority, sells bonds of the local housing authority to pay off the short term indebtedness of the authority and to provide permanent financing for the project. Local housing authority bonds are normally sold with maturities of up to forty years. The bonds are tax exempt and, like the notes mentioned above, are secured by the full faith and credit of the United States Government.

U. S. Shelter Corporation

During the past fiscal year U. S. Shelter Corporation ("Shelter") was organized as a wholly-owned subsidiary of the Company to provide interim and long-term financing services to purchasers

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of the Company's modular housing. Under Section 236 of the National Housing Act, the Federal Housing Administration ("FHA") may insure a mortgage, held by a qualified mortgagee, which is equal in principal amount to 100% of the costs of a project incurred by a qualified non-profit mortgagor-sponsor. The FHA has approved Shelter as a qualified mortgagee. Where a Company's customer desires financing to cover the costs of acquiring land, purchasing and installing the modules, and preparing the site, Shelter will agree to supply temporary funds and to provide permanent mortgage financing after it has obtained a commitment from the FHA to insure the permanent mortgage, secured another form of federal assistance, or arranged for permanent financing from private institutional sources. Upon obtaining such a commitment, Shelter will borrow the funds necessary for interim financing from private institutional sources, and lend such funds to the Company's customer. Shelter's borrowings will not be guaranteed by the Company. For its services, Shelter charges a fee which is based on the principal amount of the permanent mortgage.

Shelter has been given approval to sell mortgages to, and buy mortgages from, the Federal National Mortgage Association and the Government National Mortgage Association. During the seven months ended February 28, 1971 Shelter's earnings were derived from the accrual of fees aggregating \$300,000, which will not be received until the mortgages close.

Financing Sales to Non-Profit Sponsors

The Company has made sales to, or received orders (subject to federal approval) from, non-profit sponsors in New York, Mississippi, Ohio, Indiana, Massachusetts, West Virginia and Maine. Section 236 of the National Housing Act provides indirect rental assistance to eligible low and moderate income families through periodic interest reduction payments by HUD to the mortgagee in amounts which effectively serve to reduce the mortgagor's obligation to the repayment of principal plus 1% interest. Section 236 housing developments are also eligible for rent supplement payments by HUD to the non-profit sponsor for up to 40% of the dwellings in the development when rents are less than the amounts required to meet debt service and operating expenses.

Legal Proceedings

Homasote Company has alleged that the Company is wrongfully using the word "Homex" in its name on the ground that the use constitutes a violation of the registered trade name "Homex", which Homasote holds on pre-molded wood-fiber strips for use as expansion joint fillers in concrete and masonry construction. The Company has denied the claim and, in August 1969, brought an action against Homasote in the United States District Court, Western District of New York, for a declaratory judgment that it may continue to use the word "Homex". In the same court, Homasote then brought an action to enjoin the use by the Company of the word "Homex", for an accounting and for unspecified damages. In the opinion of the Company, there are valid defenses to the claims alleged.

The Company is a defendant in an action commenced in the United States District Court, Southern District of New York in March 1971. The plaintiff, a former stockholder of the Company, alleges that he suffered \$1,575,000 in damages by reason of an alleged conspiracy between the Company and a co-defendant broker to force plaintiff to sell 90,000 shares of the Company's Common Stock at a price substantially below its alleged market value. The shares of Common Stock of the Company owned by the plaintiff were not registered under the Securities Act of 1933 and were represented to have been acquired for investment in August 1968. The plaintiff has also asked for treble damages. In the opinion of the Company, it has valid defenses to the claims alleged.

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Competition

The Company's principal customers are local housing authorities and non-profit sponsors. The usual practice for a local housing authority is to entertain competing proposals. The major factors which affect a customer's decision include price, design and quality of product, responsibility of the builder and speed with which a project may be completed.

The Company must compete with numerous conventional builders, many of which possess much greater resources than the Company. In addition, conventional methods have a greater acceptance with many developers and housing authorities. The Company believes, however, that its manufactured housing is competitive in price and quality with conventional housing. There are other companies, some of which possess much greater resources than the Company, that have announced their intention to use, and may be using, an assembly-line manufacturing technique similar to that used by the Company, or which are actively engaged in research into such technique.

PROPERTIES**Avon Facilities**

The Company's principal office and factory are located on 57 acres of land owned by it in Avon, New York. They consist of a brick and steel office building and an adjoining concrete block factory having an aggregate area of about 140,000 square feet. The original plant was erected in 1967, and a 75,000 square foot addition was completed in 1970.

In 1969, the Company purchased a one story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon near its main location. It is used to manufacture components for the housing modules, and contains offices and classrooms used in the Company's education program.

During 1970 the Company constructed a four story prototype modular high-rise building adjacent to its Avon plant and an observation center, containing the electronic controls for the hydraulic jacks, from which the high-rise system may be viewed and studied. See "Business—The High-Rise".

Mississippi Plant

Construction of a manufacturing plant in Gulfport, Mississippi, capable of producing 100 finished modules per day upon completion, is expected to be commenced in July 1971. It is anticipated that the facility will be 350,000 square feet in area and will employ approximately 2,000 persons. Capital expenditures in connection with the plant are expected to be approximately \$4,900,000. In a contract with the Company, Harrison County (where the plant site is located) has agreed to take the steps necessary to authorize the issuance and sale of tax exempt industrial revenue bonds in an amount up to \$4,900,000, and to use the proceeds to meet the cost of constructing and equipping the plant. If such sale is not consummated, the Company will arrange to finance the cost of the facility itself.

On March 17, 1971, the Company leased 100 acres on which the facility is to be located from Harrison County and its Development Commission under a 30-year lease providing for a rental of \$36,325 per annum, with 60 one-year renewal options at an annual rental of \$25,000. The lease gives the Company an option to purchase the land and the facility at the end of the initial term and each

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renewal term for \$100. If the bonds are sold, the Company will pay, as additional rent, all amounts necessary to pay principal and interest on the bonds when due. The Company has the option until December 31, 1974 to lease an additional 200 acres adjacent to the plant site for a term of 30 years at an annual rental of \$72,650. The Company is obligated to pay at the rate of \$5,000 per month for the option right, which will not be applied to the purchase price. The lease will contain certain renewal options and options to purchase the property.

The Company plans to produce both its townhouse and high-rise modules at Gulfport. This facility will have its own rail spur and loading dock.

MANAGEMENT

The directors and officers of the Company are:

<u>Name</u>	<u>Office</u>
David Stirling, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
William G. Stirling*	President and Director
Harold M. Yanowitch*	Executive Vice President, General Counsel and Director
E. A. Bartz	Vice President and Secretary
Frank Csapo	Vice President-Manufacturing
Gary L. Hammons	Vice President-Real Estate and Installation Division
Herman D. Hillman	Vice President
Victor G. Pappas	Vice President-Personnel
Arthur E. Rosfeld	Vice President-Program Planning
Edwin J. Schulz	Vice President and Controller
David Stirling, Sr.	Vice President and Director
Carl L. Wren	Vice President-Market Research
Paul M. Kuveke, Jr.	Treasurer
C. W. Marshall	President, U.S. Shelter Corporation and Director
Reuben K. Davis	Vice President and Assistant Secretary
Theodore W. Kheel	Director
John W. Castellucci	Director

* Member of Executive Committee.

Prior to organizing the Company in July 1968, David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Frank Csapo had been officers of Stirling Bros., Inc., a multi-family housing development and operating company, since its organization in 1962.

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Harold M. Yanowitch had been engaged in the practice of law for more than 20 years before joining the Company in 1969. Prior to joining the Company, Mr. Yanowitch was a senior partner in the law firm of Yanowitch, Frank & Garrity.

E. A. Bartz was Controller of Stirling Bros., Inc. from 1966 to August 1968 when he joined the Company as Treasurer. Prior to 1966 Mr. Bartz was Controller of a real estate investment company for twelve years.

Gary L. Hammons joined the Company in 1970. For more than five years prior thereto he was with the Kroger Company as vice president—property.

Prior to joining the Company in 1970, Herman D. Hillman directed the U. S. Department of Housing and Urban Development's programs of the Housing Assistance Administration (low-rent, college and senior citizens) in the New York and New England states. Mr. Hillman, a lawyer, first joined the Legal Staff of the U. S. Housing Authority in 1939.

Victor G. Pappas has been with the Company since 1969. Prior thereto, for more than three years, he was Corporate Director of Personnel for a subsidiary of The Singer Company.

Arthur E. Rosfeld joined the Company in 1969. During the previous year he was employed as Acting Deputy Assistant Secretary for the Housing Assistance Administration of HUD. From May 1967 to September 1969, Mr. Rosfeld also served as the Director of the Operational Services Division of the Regional Housing Administration of HUD and from September 1966 with the Assistant Secretary for Renewal and Housing Assistance. During the two years prior thereto, Mr. Rosfeld worked as a private consultant on urban affairs.

Edwin J. Schulz joined the Company in 1968, after leaving his position as senior systems analyst of Armstrong Cork Co., Inc., a manufacturer of building products where he had been employed since prior to 1964.

Carl L. Wren has directed the Company's market research activities since its inception in July 1968. For more than three years prior thereto, he was with Stirling Bros., Inc.

Paul M. Kuveke, Jr. joined the Company in 1970. From 1967 to 1970 Mr. Kuveke, a certified public accountant, was associated with Irving Trust Company and for the six previous years, he was associated with a firm of certified public accountants.

C. W. Marshall, for more than 20 years prior to joining the Company in 1970, was a senior officer of Central Trust Company, Rochester, New York.

Reuben K. Davis joined the Company in 1969. A lawyer, Mr. Davis previously had been a public official in the City of Rochester for more than three years.

Since 1949, Theodore W. Kheel has been a member of the law firm of Battle, Fowler, Stokes & Kheel and has served as a mediator and arbitrator of labor disputes for approximately 30 years. Mr. Kheel is also a director of Western Union Telegraph Company, Athlone Industries, Inc., Combustion Equipment Associates, Inc. and the Republic National Bank of New York, of which he is also Chairman of the Board of Directors.

Since prior to 1964 John W. Castellucci has been employed by the National Association of Blue Shield Plans, a trade association of medical insurance companies. He has been President since 1967 and served as Executive Vice President prior thereto.

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The following table sets forth the remuneration for the fiscal year ended July 31, 1970 of each director and the three highest paid officers of the Company whose remuneration for the year from the Company and its subsidiaries exceeded \$30,000, and all directors and officers as a group:

<u>Name</u>	<u>Capacity in Which Remuneration was Received</u>	<u>Aggregate Direct Remuneration</u>
David Stirling, Jr.	Chairman of the Board and Chief Executive Officer	\$ 75,557
William G. Stirling	President and Chief Operating Officer	\$ 75,557
Harold M. Yanowitch	Executive Vice President and General Counsel	\$ 70,653
Richard E. Karkow(1)	Executive Vice President and Treasurer	\$ 63,750
David Stirling, Sr.	Vice President	\$ 44,984
All Directors and Officers as a Group (11 Persons)		\$498,310(2)

(1) Mr. Karkow left the employ of the Company in February 1971.

(2) The law firm of which Mr. Kheel is a member received \$50,000 during the year ended July 31, 1970 for services rendered, which amount is not included in the above figure.

Currently, the Company is paying annual salaries of \$125,000 each to David Stirling, Jr. and William G. Stirling and \$100,000 to Harold M. Yanowitch. There are employment agreements terminating in September 1974 with these persons and with David Stirling, Sr., who is receiving an annual salary of \$45,000.

ORGANIZATION AND CERTAIN TRANSACTIONS

At the time of the Company's organization Messrs. David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. received directly or through corporations which they controlled, an aggregate of 6,400,000 shares of Common Stock of the Company in return for the land, building and manufacturing facilities in Avon, a patent application, processes and know-how relating to the assembly-line manufacture of housing, \$6,000 in cash and the outstanding stock of three corporations in the land and housing development business. The stock of the three corporations and the physical assets acquired had a net aggregate book value of \$111,627 as determined by the accountants for the Company. The land, building and manufacturing facilities had been purchased or constructed by the founders of the Company at a total cost to them of approximately \$400,000, subject to liabilities of approximately \$300,000, and they had paid approximately \$11,000 for the stock of the three corporations.

In June 1969 the Company issued and sold to Harold M. Yanowitch 100,000 shares and to Theodore W. Kheel and designees 200,000 shares of its Common Stock at \$1.00 per share, and on August 11, 1969 issued and sold to Richard E. Karkow, then an officer and director, 100,000 shares at \$1.00 per share. In March 1971, the Company repurchased 60,000 of Mr. Karkow's shares for \$180,000.

In 1970 and 1971 the Company advanced \$287,563 for the purchase of building materials for the use of David Stirling, Jr., all of which has been repaid by Mr. Stirling. In 1970 the Company loaned \$57,500 to Gary L. Hammons, \$34,228 of which has been repaid.

The Company has used the services of Johnston Paviour Sibley, Inc., an insurance broker, in the purchase of its insurance policies and has paid \$205,367 in premiums to such agency since August 1968. Harper Sibley, Jr., a director of the Company until February 1971, and an owner of more than 10% of its outstanding shares of Common Stock, was an officer, director and principal stockholder of such corporation which received commissions on such insurance purchases at the established rates.

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In 1969 a subsidiary of the Company sold land to, and developed a modular housing complex in Clay, New York for a limited partnership, of which Messrs. David Stirling, Jr. and William G. Stirling were limited partners, holding in the aggregate one-sixth of the partnership interest. A corporation controlled by Harper Sibley, Jr. made a construction loan of \$2,900,000 in connection with such complex, which loan has been repaid. The project has been completed and a total of approximately \$3,766,000 was paid for the modules and services provided.

In 1969 the Company and a subsidiary completed the final portion of construction work on a modular housing development in Henrietta, New York, known as Fairways, Phase I, for a partnership, of which Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. were partners. Approximately \$919,000 was received for such work.

In 1969 the Company and a subsidiary completed performance of a contract for the sale and erection of modules which had been entered into with a corporation all the stock of which is owned by David Stirling, Jr., William G. Stirling and Harold M. Yanowitch. The work was done at a site in Avon, New York for a price of approximately \$443,000.

Under a contract entered into in 1967 with a corporation, all of the stock of which is held by a corporation which was controlled by Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr., a subsidiary of the Company did the on-site construction work at a mobile home park in Clay, New York, owned by such corporation. The subsidiary received approximately \$1,394,000 for such work.

In March 1969 a subsidiary of the Company purchased land from a corporation all the stock of which is owned by David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. for \$123,500 and sold it to such corporation in July 1969 for \$128,862 (representing initial costs and improvements).

The Company considers the amounts received by it in the above-described transactions in line with amounts customarily charged for similar products and services.

STOCK OPTION PLAN

The Company has a qualified Stock Option Plan under which, as of February 28, 1971, a total of 890,000 shares of Common Stock were reserved for issuance upon the exercise of options granted or to be granted under the Plan (subject to adjustment for stock splits, stock dividends or any similar change affecting the Common Stock). The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code. The option price in each instance is 100% of the fair market value of the Common Stock on the date the option is granted, and options expire five years from the date of grant.

In October 1969, Harold M. Yanowitch was granted qualified stock options to purchase 25,000 shares for \$3.00 a share. Since the adoption of the Plan and through February 28, 1971, all directors and officers as a group have been granted options to purchase 195,000 shares at prices ranging from \$3.00 to \$18.00 per share, and in addition, other key employees have been granted options to purchase 328,800 shares at prices ranging from \$3.00 to \$19.75 per share. An officer of the Company has exercised options to purchase 2,000 shares for an aggregate exercise price of \$6,000. The shares had an aggregate market value on the dates of purchase of \$42,775. See Note 10 of Notes to Consolidated Financial Statements.

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PRINCIPAL STOCKHOLDERS

Set forth below is certain information as of February 28, 1971, with respect to the beneficial ownership of Common Stock of the Company by each person who owns of record or is known by the Company to own beneficially more than 10% of the outstanding Common Stock of the Company.

<u>Name and Address</u>	<u>Shares of Common Stock Owned</u>	<u>Percent of Outstanding Common Stock</u>
David Stirling, Jr.* 1150 East River Road, Avon, New York	1,934,452	21.7%
William G. Stirling* 1150 East River Road, Avon, New York	1,944,548	21.8
Harper Sibley, Jr.* 200 S.E. First Street Miami, Florida	930,923	10.5
All directors and officers as a group (13 persons)*	4,763,008	53.5

* Includes shares owned beneficially by members of the families of such stockholders.

David Stirling, Jr., William G. Stirling and David Stirling, Sr. may be considered to be "parents" of the Company as that term is defined in the regulations under the Securities Act of 1933.

DESCRIPTION OF CAPITAL STOCK**Common Stock**

Holders of shares of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor and, upon liquidation, are entitled to share pro rata in any distribution to stockholders. The holders of shares of Common Stock have one vote per share and do not have preemptive or cumulative voting rights. Shares of Common Stock are not redeemable and do not have conversion rights and are not liable to assessment or further calls by the Company.

The Company furnishes stockholders with annual reports which contain audited financial statements.

The Transfer Agent and Registrar for the Common Stock of the Company are Chemical Bank and Chase Manhattan Bank, N.A., respectively.

Preferred Stock

Up to 500,000 shares of preferred stock, par value \$1.00 per share, may be issued from time to time in series with such series designation, number of shares in the series, relative rights, preferences and limitations as the Board of Directors of the Company may determine. Among the determinations to be made by the Board for each series would be (a) the dividend rate, and whether dividends would be cumulative; (b) conversion rights, if any, and the terms of any conversion; (c) the voting rights, if any; and (d) the rights of the Company to redeem such shares, and the terms of any redemption. Holders of preferred stock would not have preemptive rights.

No preferred stock has been issued and no plans have been made for any such issuance.

Defendants' Exhibit 759

UNDERWRITING

The Underwriters named below, acting through their Representative, Merrill Lynch, Pierce, Fenner & Smith Incorporated, have severally agreed, subject to the terms and conditions of the Purchase Agreement, to purchase from the Company and the selling stockholder, R. W. Pressprich & Co. Incorporated ("Pressprich") the number of shares of Common Stock set forth opposite their respective names. The Underwriters are committed to purchase all of such shares if any are purchased. Under certain circumstances the commitments of non-defaulting Underwriters may be increased. In the event of default by Pressprich, less than all of the shares of Common Stock may be sold.

<u>Name of Underwriter</u>	<u>Address of Underwriter</u>	<u>Number of Shares to be Purchased</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	70 Pine Street New York, N. Y. 10005	

Total 1,025,000

The Representative of the Underwriters has advised the Company that sales of Common Stock to certain dealers may be made at a concession of ¢ per share and that the Underwriters may allow, and such dealers may reallow, discounts not in excess of ¢ per share on sales to certain other dealers.

Prior to this offering, Pressprich owned of record and beneficially 93,400 shares of the Company's Common Stock. After the completion of this offering, Pressprich will own of record and beneficially 68,400 shares. Pressprich acquired the 25,000 shares of Common Stock being offered hereby in connection with the public offering of Common Stock made by the Company and certain other selling stockholders in February 1970 at the then public offering price of \$16.50 per share. The foregoing amounts do not include shares of the Company's Common Stock held by Pressprich in its trading account pursuant to its activities as a market maker in such stock. The Company agreed to include the 25,000 shares so purchased by Pressprich in a subsequent registration statement filed under the Securities Act of 1933 without cost to Pressprich.

Pressprich as well as the officers and directors of the Company have agreed that, during the period of 90 days from the date of this Prospectus, they will not, without the consent of the Representative of the Underwriters, directly or indirectly, sell, grant any option for the sale of or otherwise dispose of any Common Stock of the Company owned by such persons, except for sales by Pressprich after completion of the distribution pursuant to its market making activities.

Defendants' Exhibit 759

LEGAL OPINIONS

The legality of the Common Stock offered hereby is being passed upon for the Company by Shea Gallop Climenko & Gould, 330 Madison Avenue, New York, New York 10017, for the selling stockholder by Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York 10005, and for the Underwriters by Brown, Wood, Fuller, Caldwell & Ivey, 70 Pine Street, New York, New York 10005. A member of Shea Gallop Climenko & Gould participating in this matter and his family beneficially own an aggregate of 600 shares of Common Stock of the Company.

EXPERTS

The financial statements and schedules included herein and elsewhere in the Registration Statement, so far as they pertain to the two years ended July 31, 1970 and the seven month period ended February 28, 1971, have been included herein and in the Registration Statement in reliance upon the respective reports of Peat, Marwick, Mitchell & Co., and Harris, Kerr, Forster & Company, independent certified public accountants, and upon the authority of said firms as experts.

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Defendants' Exhibit 759

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Defendants' Exhibit 759

ACCOUNTANTS' REPORTS

THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of February 28, 1971 and the related statements of income, retained earnings, additional paid-in capital and source and application of funds for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Stirling Homex Corporation and consolidated subsidiaries at February 28, 1971, and the results of their operations and source and application of funds for the seven months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.

Rochester, New York
March 22, 1971

THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated statements of income, retained earnings, additional paid-in capital and source and application of funds of Stirling Homex Corporation and consolidated subsidiaries for the two years ended July 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated results of operations, changes in additional paid-in capital and source and application of funds, of Stirling Homex Corporation and consolidated subsidiaries, for the two years ended July 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

HARRIS, KERR, FORSTER & COMPANY

New York, New York
September 21, 1970

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

February 28, 1971

ASSETS

Current assets:

Cash	\$ 5,059,564
Receivables (Notes 3 & 4)	27,510,210

Inventories:

Raw materials and work in process at lower of standard cost or replacement market (Note 5)	974,660
Land held for development or sale, at cost (Notes 4 & 5) ..	1,183,402
Prepaid expenses and other current assets	439,259
Total current assets	<u>35,167,095</u>
Investment in and advance to unconsolidated subsidiary (Note 1)...	222,333
Long-term receivables (Note 4)	1,629,497
Property, plant and equipment at cost, less accumulated depreciation and amortization of \$449,950 (Notes 6 & 8)	8,779,439
Deferred charges, less accumulated amortization of \$367,718 (Note 7)	<u>1,978,987</u>

\$47,777,351

See accompanying Notes to Consolidated Financial Statements.

Defendants' Exhibit 759

LIABILITIES and STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt (Note 8)	\$ 314,588
Notes payable to banks—unsecured (6¼-7½%)	29,700,000
Accounts payable—trade	2,206,633
Accrued interest	280,929
Accrued expenses and other liabilities	263,041
Deferred income taxes (Note 9)	129,439
Total current liabilities	<u>32,894,630</u>

Long-term debt (Note 8)	352,877
Deferred income taxes (Note 9)	1,238,531

Stockholders' equity:

Preferred stock:

Authorized 500,000 shares—\$1.00 par value; issued—none	—
--	---

Common stock (Note 10):

Authorized 15,000,000 shares—\$.01 par value; issued 8,907,400 shares	89,074
Additional paid-in capital	8,476,638
Retained earnings	4,725,601
Total stockholders' equity	<u>13,291,313</u>

Commitments and contingencies (Note 11)

\$47,777,351

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

	Year Ended		Seven Months Ended
	July 31, 1969	July 31, 1970	February 28, 1971
Balance at beginning of period	\$ —	\$1,949,813	\$8,446,738
Excess of proceeds over par value of 400,000 shares of common stock issued in public offering (less net expenses of \$118,285)	—	5,981,715	—
Excess of proceeds over par value of shares of common stock issued in private sales (less applicable expenses) (1970—129,000 shares; 1969—1,968,400 shares)	1,910,949	515,210	—
Stock issued at par for cash, patents, copyrights and processes (the last three carried at \$1) 1969—2,400,000 shares	—	—	—
Excess of book value of assets acquired over par value of 4,000,000 shares of common stock issued (Note 1)	101,627	—	—
To increase par value of common stock outstanding as a result of four-for-one stock split	(62,763)	—	—
Excess of proceeds over par value of 10,000 common shares issued under stock options (Note 10)	—	—	29,900
Balance at end of period	<u>\$1,949,813</u>	<u>\$8,446,738</u>	<u>\$8,476,638</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of period	\$ —	\$1,082,481	\$3,117,670
Net income	1,082,481	2,035,189	1,607,931
Balance at end of period	<u>\$1,082,481</u>	<u>\$3,117,670</u>	<u>\$4,725,601</u>

See accompanying Notes to Consolidated Financial Statements.

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended		Seven Months Ended
	July 31, 1969	July 31, 1970	February 28, 1971
Source of funds:			
Net income	\$1,082,481	\$2,035,189	\$ 1,607,931
Charges to income not requiring funds:			
Depreciation and amortization	70,085	220,227	220,227
Amortization of deferred charges	34,002	133,288	200,428
Deferred income taxes	402,489	184,776	651,266
Undistributed net income of finance subsidiary (Note 1)	—	—	(104,928)
Funds derived from operations	1,589,057	2,573,480	2,574,924
Net proceeds from public offering of common stock ...	—	5,985,715	—
Net proceeds from private sale of common stock	1,921,870	516,500	—
Net proceeds from common stock issued under qualified stock option plan	—	—	30,000
Long-term borrowings	2,549,534	124,677	51,286
Decrease in long-term receivables	—	43,421	—
Total source of funds	6,060,461	9,243,793	2,656,210
Application of funds:			
Additions to property, plant and equipment	702,932	4,422,506	3,753,921
Additions to deferred charges	376,306	735,093	1,235,306
Reduction in long-term debt	164,700	3,052,140	194,898
Increase in non-current portion of long-term receivables	584,546	—	1,088,373
Increase in investment and advances to unconsolidated subsidiary	—	—	117,405
Total application of funds	1,828,484	8,209,739	6,389,903
Increase (decrease) in working capital	\$4,231,977	\$1,034,054	\$(3,733,693)

See accompanying Notes to Consolidated Financial Statements.

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The Company was incorporated on July 22, 1968 and commenced operations on August 1, 1968. In connection with its organization, the Company issued 4,000,000 shares of its common stock for the outstanding stock of certain predecessor companies. This transaction has been treated as a purchase and the results of operations of these companies have been included in the consolidated statement of income from the date of acquisition. The value ascribed to the stock issued was equal to the tangible net assets of these companies.

The consolidated financial statements include the accounts of the Company and its subsidiaries except for U.S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET

February 28, 1971

ASSETS

Cash and accounts receivable	\$327,898
Other assets	11,167
	<u>\$339,065</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Payables and accrued expenses (primarily income taxes payable)	\$116,732
Due to parent company	17,405
Stockholder's equity	204,928
	<u>\$339,065</u>

STATEMENT OF INCOME

From date of incorporation (September 25, 1970) to February 28, 1971

Finance income	\$300,000
General and administrative expenses	83,072
	<u>216,928</u>
Income taxes	112,000
NET INCOME	<u>\$104,928</u>

The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds will be used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended July 31, 1970, the Company changed its method of recording the installation portion of sales contracts from the completed contract method to the percentage-of-completion method. Although this change had no significant effect on results of operations for fiscal years 1969 and 1970, such results have been retroactively restated to provide consistent application of this change.

3. RECEIVABLES

The Company enters into various modular housing sale contracts which contain an allocation of the sales price between modules (based upon published price lists) and installation work. The contracts generally provide for payment upon completion and receipt of all approvals necessary for occupancy or for payment upon completion of each respective phase. Sales of modules are recognized when units are manufactured and assigned to specific contracts. Installation work is recorded on the percentage-of-completion method.

Receivables at February 28, 1971 consist of:

Contract receivables:		
Billed	\$ 7,801,602	
Unbilled	18,888,192	
Total		\$26,689,794
Current portion of long-term receivables (Note 4)		557,975
Other receivables		262,441
Total receivables		<u>\$27,510,210</u>

Substantially all sales are to local housing authorities and sponsors who qualify for financial assistance from Federal agencies of the U. S. Government. In light of this, no provision for doubtful accounts is considered necessary.

4. LONG-TERM RECEIVABLES

Long-term receivables at February 28, 1971 consist of:

Mortgages receivable:

Mortgage due June 1, 1974—payments of \$2,500 due quarterly with interest at the prime commercial rate in effect on the interest payment date (see a. below)	\$ 249,124
Mortgage due June 30, 1975—payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date (see a. below)	302,000
Land contract receivable, net of unearned interest of \$253,652 (see b. below)	1,636,348
	<u>2,187,472</u>
Less installments due within one year, net of unearned interest of \$94,950	557,975
	<u>\$1,629,497</u>

a. During the year ended July 31, 1969, a subsidiary of the Company sold two parcels of land for a total of \$750,000 which is included in "Sales-Trade" in the Consolidated Statement of Income. The sales accounted for approximately 18% of the Company's net income for the year. Payment of the purchase price is secured by the mortgages enumerated in the table above.

b. During the seven months ended February 28, 1971, a subsidiary of the Company sold a parcel of land for an aggregate contract price of \$2,100,000. \$1,822,723 is included in "Sales-Trade" and the balance of \$277,277 has been treated as imputed interest and will be recognized as income as it is earned during the payment period. The sale accounted for approximately 35% of the Company's

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

net income for the period. The contract provides for a \$210,000 down payment, which was paid, and minimum semi-annual payments of \$25,000 each beginning June 30, 1971 to December 30, 1975, on which date the remaining balance is due. After December 30, 1972, interest will be payable on the unpaid balance at the rate of 4%. The contract provides that ten acres of the land subject thereto will be conveyed to the purchaser, a corporation whose principal asset is its interest in the contract, to allow the application for an institutional loan for construction in accordance with the proposed program of the purchaser for development of the property, without any additional payment by the purchaser, and for the conveyance of additional portions of the land upon payment by the purchaser of \$18,585 for each acre conveyed. The minimum semi-annual payments are a credit against the release price for acreage. The contract provides for a credit against the purchase price consisting of a portion of the award to be received by the subsidiary in pending proceedings to determine the award for the condemnation by the State of New York of certain land contiguous to the land which is subject to the contract.

5. INVENTORIES

(a) Inventories of the Company consisted of the following:

	July 31, 1969	July 31, 1970	Feb. 28, 1970 (unaudited)	Feb. 28, 1971
Salable merchandise	\$ 653,872	\$1,064,408	\$1,274,540	\$ —
Work in process	12,000	139,531	45,000	241,417
Raw materials	471,427	963,664	688,515	733,243
Total	<u>\$1,137,299</u>	<u>\$2,167,603</u>	<u>\$2,008,055</u>	<u>\$974,660</u>

(b) Land held for development or sale is recorded at its initial cost plus real estate taxes, mortgage interest and other related carrying costs.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at February 28, 1971 consisted of the following:

Land and land improvements	\$1,066,654
Buildings	4,433,229
Machinery and equipment	1,370,419
Furniture, fixtures and office equipment	685,223
Other	92,171
Construction in progress	<u>1,581,693</u>
	9,229,389
Less accumulated depreciation and amortization ..	<u>449,950</u>
	<u>\$8,779,439</u>

Buildings are depreciated on the straight-line method over an estimated useful life of forty-five years. All other items are depreciated on the straight-line method over estimated useful lives ranging from one to twenty years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When properties are retired, sold or otherwise disposed of, the cost and the related accumulated depreciation and amortization is removed from the accounts, and gains and losses resulting from such transactions are reflected in income.

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. DEFERRED CHARGES

The unamortized balances of deferred charges at February 28, 1971 consist of:

	Amortization Period	Unamortized Balance
Patents pending and trademarks	Legal life	\$ 123,508
Training and professional development	3 years	314,356
Research and development	5 years	381,880
Project and production start-up costs	2 to 5 years	880,091
Property acquisition costs	(a)	221,057
Miscellaneous	1 to 5 years	58,095
		<u>\$1,978,987</u>

(a) Expenditures in connection with property acquisition will be added to the cost of property subsequently acquired.

In the event of project abandonment or other circumstances causing a loss of value to deferred items, the related unamortized costs are charged to current operations.

8. LONG-TERM DEBT

As of February 28, 1971, long-term debt consisted of the following:

Mortgages maturing at various dates through December 31, 1976 and bearing interest at rates ranging from 4¾% to 6%	\$541,594
Installment contracts and lease purchase agreements maturing at various dates through August, 1974 ..	125,871
	<u>667,465</u>
Less payments due within one year	314,588
	<u>\$352,877</u>

Land, buildings and equipment with a net book value of \$1,684,000 were encumbered under the above agreements.

The required principal payments on long-term debt for the next five years ended February 28 are as follows:

1973	\$212,936
1974	95,845
1975	23,278
1976	17,330
1977	3,488

9. INCOME TAXES

Deferred taxes relate principally to depreciation, deferred and capitalized costs, installation contracts and installment sales. None of the Company's tax returns have been examined by the Internal Revenue Service.

10. STOCK OPTIONS

The Company has a qualified stock option plan in effect whereby options to purchase shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. During the seven month period ended February 28, 1971, authorized shares under the plan were increased from 400,000 to 900,000 shares. Options expire five years after the date of grant and are exercisable in cumulative installments of 20% after one year. A summary of activity follows:

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(1) Options outstanding at February 28, 1971:

Period Granted	Shares (Net of Cancellations)	Option & Market Price at Grant Per Share		Total
		From	To	
Year ended July 31, 1970	341,800	\$ 3.00	\$16.50	\$2,997,100
Seven months ended February 28, 1971 ...	172,000	15.50	19.75	2,996,750
	<u>513,800</u>			<u>\$5,993,850</u>

	Option price	Seven Months Ended February 28, 1971	Market value
(2) Shares for which options first became exercisable..		53,760 shares	
Total option price and market value at dates options became exercisable	\$396,720		\$1,165,807
Range per share	\$3.00 to \$16.50		\$18.75 to \$23.75
(3) Shares for which options were exercised		10,000 shares	
Total option price and market value at dates options exercised	\$ 30,000		\$ 198,692
Range per share	\$3.00		\$18.00 to \$21.50

No entries are recorded with respect to options until exercised at which time the excess of the option price over the par value of common stock issued is credited to paid-in surplus.

11. COMMITMENTS AND CONTINGENCIES

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company the plaintiff will be unsuccessful in obtaining the relief which it seeks.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233 excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

A complaint was served on March 2, 1971 in an action against the Company and another party, a broker, to recover damages allegedly suffered by a former shareholder of restricted shares of Company common stock. It is claimed that the Company refused, in concert with the other party, to permit the transfer of plaintiff's stock except at a price substantially below market. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is committed to construct a new manufacturing facility. See "Properties—Mississippi Plant".

At February 28, 1971, the Company had leases on various equipment and office facilities with terms ranging from two to six years. Minimum annual rentals under such leases amount to approximately \$390,000.

Defendants' Exhibit 759

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

	Year ended July 31, 1969	Year ended July 31, 1970	Seven months ended February 28, 1971
Maintenance and Repairs:			
Cost of sales	\$ 22,221	\$ 84,386	\$122,826
Other	257	8,479	21,007
	<u>22,478</u>	<u>92,865</u>	<u>143,833</u>
Depreciation and Amortization:			
Cost of sales	67,985	193,804	145,936
Other	2,100	26,423	74,291
	<u>70,085</u>	<u>220,227</u>	<u>220,227</u>
Amortization of Deferred Charges:			
Cost of sales	—	—	—
Other	34,002	133,288	200,428
	<u>34,002</u>	<u>133,288</u>	<u>200,428</u>
Taxes Other than Taxes on Income:			
Payroll taxes:			
Cost of sales	89,846	187,190	181,765
Other	7,540	26,757	78,448
Land cost	476	—	—
	<u>97,862</u>	<u>213,947</u>	<u>260,213</u>
Property Taxes:			
Cost of sales	6,347	18,594	7,502
Other	—	7,701	16,952
Land cost	18,452	23,762	43,648
	<u>24,799</u>	<u>50,137</u>	<u>68,102</u>
Rents:			
Cost of sales	3,386	76,528	120,253
Other	11,445	112,889	323,974
	<u>14,831</u>	<u>189,417</u>	<u>444,227</u>

There were no management fees, service fees or royalties paid during the above periods.

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Defendants' Exhibit 759

1,025,000 Shares

Stirling Homex Corporation

Common Stock
(Par Value \$.01 Per Share)

PROSPECTUS

**Merrill Lynch, Pierce, Fenner & Smith
Incorporated**

May , 1971

STIRLING HOMEX CORPORATION

MEMORANDUM OF CHANGES IN PRELIMINARY PROSPECTUS
DATED JULY 16, 1971

The principal changes in, and additions to, the Preliminary Prospectus dated May 28, 1971, are as follows:

1. The Company has changed its accounting treatment of a sale of land consummated in December, 1970. It is not currently recognizing any income from this land sales transaction. Accordingly, the earnings for the nine month period ending April 30, 1971 have been correspondingly reduced by \$577,906 and the earnings per share by \$.06.
2. The Company's consolidated statement of income has been changed to indicate separately revenue and matching costs for the modules and installation work.
3. Information under the caption "Sales" has been expanded.
4. The notes to the consolidated statement of income have been enlarged and explanatory paragraphs relating to such statement have been inserted in the text of the Preliminary Prospectus.

Other modifications or extensions of information set forth under various captions and in the financial statements have been effected.

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STIRLING HOMEX CORPORATION

MEMORANDUM OF CHANGES IN PRELIMINARY PROSPECTUS
DATED JULY 16, 1971

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4. The notes to the consolidated statement of income have been enlarged and explanatory paragraphs relating to such statement have been inserted in the text of the Preliminary Prospectus.

Other modifications or extensions of information set forth under various captions and in the financial statements have been effected.

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COPY RECEIVED
JUN 14 1977
ROBERT B. FISKE JR.
U. S. DISTRICT COURT
SOUTHERN DIST. OF N. Y.